



Digitized by the Internet Archive
in 2014

<https://archive.org/details/businessweek199803newy>

**For Reference
Do Not Take
From the Library**

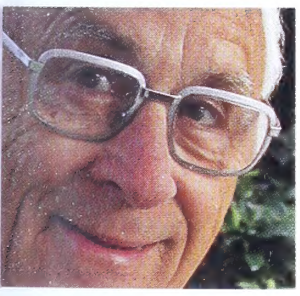
Every person who maliciously cuts, defaces, breaks or injures any book, map, chart, picture, engraving, statue, coin, model, apparatus, or other work of literature, art, mechanics or object of curiosity, deposited in any public library, gallery, museum or collection is guilty of a misdemeanor.

**Penal Code of California
1915, Section 623**

BusinessWeek

4, 1998 A PUBLICATION OF THE MCGRAW-HILL COMPANIES \$3.95

THE NEW STOCK TRADERS



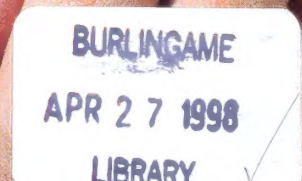
Small investors
now have the
information and
software to trade

like pros. Is this for you?



BURLINGAME PUBLIC LIBRARY
480 PRIMROSE RD
BURLINGAME CA 94010-4010

01010 94010
#BXBDGDD**5-DIGIT
#0602 105811100#JAN99 T1N 0208



**GUESS WHOSE SOFTWARE
TAKES THE WORK OUT OF
WORKING TOGETHER?**





Fujitsu's,
of course. As one of the
we's largest software companies,
we're developing software that's changing
the ways business works. For instance, our group
productivity software, TeamWARE®, is helping people
in companies around the world communicate, share
information and work together better. ∞ Our object-
oriented database engine and tools are driving new
multimedia and Internet applications that bring people
and information together. And WebWorld, our website
technology brings companies and their customers
together in lively interactive virtual worlds.

∞ we suggest you look into Fujitsu
software. It's where everything
comes together.

∞
FUJITSU

COMPUTERS, COMMUNICATIONS, MICROELECTRONICS



Because people want to soar



FORTIS

Solid partners, flexible solutions™



ne has goals in life. Some want maximum security, others prefer taking some risks. Whatever your plans may be, Fortis has more than 35,000 employees to
ou achieve them. By offering financial solutions to suit your personal and business needs. For now and for the future. From insurance policies to personal financial
ig. Wherever you see our logo, you'll find solid partners with flexible solutions. For individuals and companies, large or small. Visit Fortis on the internet at www.fortis.com
for more information 800 377 72 82. Fortis is active in the United States, Europe, Asia, Australia and the Caribbean. **Fortis. Insurance. Investments.**

COVER STORY

NEW TRADERS

Techno-savvy and self-reliant, small investors can now buy and sell stocks like pros



How "reload" stock options fatten your portfolio page 111

BusinessWeek

MAY 4, 1998



Cover Story

124 THE NEW STOCK TRADERS

They're gutsy, they're savvy, and they don't need a broker. With an array of real-time information services and low-cost online trading services, a new breed of individual investor is waking up to shorter-term opportunities in the market

138 HOW TO MAKE THE NET YOUR BROKER

Sift through the garbage and hype, and sophisticated research tools abound

News: Analysis & Commentary

38 THE POWER TO RAISE PRICES

Only an elite few can manage it even as inflation stays flat

40 A NEW CONSUMER PRICE INDEX

How the revised CPI will pay off for the economy

41 COMMENTARY: MERGERS

Time to limit the smoke-and-mirrors of "pooling"

42 BUSINESS WEEK HARRIS POLL

What to do about Microsoft? Most people say to leave it alone

44 BANKS: THE STARTUP FRENZY

Amid merger mania, lots of new banks are catering to the disenchanted

46 COMMENTARY: PHONE FEES

Consumers deserve the truth about the hidden charges on their phone bills

48 A BORDERLINE BEEF FOR CANADIANS

A tough U.S. law lets INS agents slap stiff penalties on some legal visitors

50 NOT SO UNITED AT UNITED

Nearly 20,000 low-paid customer agents want more of the family pie

52 CURBING LABOR'S POLITICAL CLOUT

An effort in California to curtail union campaign donations could hurt business

52 THE IMPOTENCE "COCKTAIL"

Viagra's just the beginning. Drug combos will be the next big thing

54 IN BUSINESS THIS WEEK

International Business

58 MALAYSIA

Prime Minister Mahathir talks about the currency, Japan, and George Soros

60 BRAZIL

Boom-and-bust cycles have yielded to steady, long-term growth

64 JAPAN

Microsoft becomes an ugly American, swamping a Japanese rival

66 INTERNATIONAL OUTLOOK

Russia: The race that could lead to Lebed to the presidency

Economic Analysis

30 ECONOMIC VIEWPOINT

Garten: The euro will turn Europe a superpower

34 ECONOMIC TRENDS

Local spending sprees, overtime plants, more jobs for the less

35 BUSINESS OUTLOOK

In the first quarter, El Niño

Government

57 WASHINGTON OUTLOOK

Look who's pushing health-care

151 NEW GROWTH DEMOCRATS

These Dems and the Reagan lot in common

154 COMMENTARY: CAPITOL HILL

The GOP may not be the only of business



ON THE FRITZ

Warring factions and strategic errors cost Motorola dearly page 140



FAMILY PLAN

Kohler floats a buyback plan that has shareholders seeing red

page 98



WORRIED
Malaysia's Premier says: "The worst is yet to come" page 58



SPECIAL REPORT

How the Net is driving a revolution in pricing

page 70

THE RISE OF CITY.COM

The New Economy is good for urban areas, and vice versa page 88



MUSCLE

Who has the power to raise prices in this economy page 58



Special Report

IOS, FIXED PRICES?

How electronic commerce could create the most efficiently responsive market of them all

CYBERSHOPPER'S BEST FRIEND

How "bots" find the best price fast

Social Issues

THE COMEBACK OF AMERICA'S CITIES

How cities in urban centers can take advantage of the Information Age find the talent and restructure it requires

Corporation

COULD KOHLER KEEP IT A FAMILY BIZ?

How the plumbing-fixtures king is fighting to keep out dissident shareholders

ONE FAT SHARE, ONE FAT HEADACHE

How Kohler's precipitous stock-price drop

NATIONAL SCHOOL FOR SCANDAL?

How computer Learning Centers may be losing their rolls and assets

LOCK OPTIONS: NEW WRINKLE

How "reloads" work—and why they're their critics

Finance

119 WHEN YOU FOCUS ON A FLOP

Are mutual funds that concentrate on just a few fast-growing stocks worth the risk?

120 COMMENTARY: THE SEC

Regulation that doesn't choke innovation

122 INSIDE WALL STREET

Information Technology

27 TECHNOLOGY & YOU

Can a laptop be too fast?

140 HOW MIGHTY MOTOROLA HAS FALLEN

It's drastically losing share in wireless phones, and these days even its reputation for quality is taking a beating

Management

159 A TALK WITH ALEX TROTMAN

Ford's chief says "mean customers" keep prices flat, making cost-cutting the surest way to boost income

Marketing

166 DILBERT TO THE RESCUE

Office Depot puts a face on a faceless business—and thrives

Personal Business

168 INVESTING: Financial "supermarkets"

SMART MONEY: Drug chains look good

COMMENTARY: Foolish tax fears

MUTUAL FUNDS: Top-heavy portfolios

Features

6 UP FRONT

12 READERS REPORT

18 BOOKS

Amelio and Simon: *On the Firing Line: My 500 Days at Apple*

158 DEVELOPMENTS TO WATCH

A chance to make the cold less common, keeping food fresh, tiny screens get brighter, a new weather eye

179 BUSINESS WEEK INDEX

180 INDEX TO COMPANIES

182 EDITORIALS

Up Front

EDITED BY ROBERT McNATT

SOFTWARE SAGAS

A CASE OF DAUGHTER DEAREST?

A NEW BOOK ON MICROSOFT is due on May 20, about the time the Justice Dept. is expected to file antitrust charges against the company. But *Barbarians Led by Bill Gates: Microsoft from the Inside*, may be as notable for its authors' backgrounds as for its peek at Microsoft. Publisher Henry Holt says the book will contain revelations from Microsoft programmers about the company's claims that it planned early on to integrate its Internet Explorer browser with its operating system—possibly a key legal issue.

The authors should know. Marlin Eller, a software de-

veloper at Microsoft for 13 years before leaving in 1995, wrote the book with journalist Jennifer Edstrom, whose mother, Pam, is co-owner of Waggener Edstrom, Microsoft's longtime PR firm. Mother and daughter have apparently gotten into a major snit about the book. Pam Edstrom confirmed the family relationship, but declined further comment. Says

Eller: "They're not speaking to each other." Meanwhile, Eller resisted efforts by Jennifer Edstrom and her editors to include substantial material on the Justice case. The editors won. The last two chapters center on antitrust issues. *Steve Hamm*



YOUTH POWER

STRIKING WHILE THE GRIDDLE IS HOT

YOU KNOW IT'S A TIGHT LABOR market when a bunch of teenagers can strike—even at nonunion McDonald's—and win. About 20 workers at a McDonald's in Macedonia, Ohio, went on strike Apr. 12. Their primary beef: verbal abuse by twenty-something supervisors, says Dominic Tocco, president of Teamsters Local 416. He had no connection to the workers until he saw their picket line while driving to work and offered help. Five days later, a Teamster-driven truck carrying hamburger buns refused to cross the line.

McDonald's caved, which is remarkable for a nonunionized company that has never faced a strike. The franchise agreed to send local supervi-



OHIO FLIPPER gets respect

sors to "people skills" training classes. The kids also won a uniform starting wage of \$6.50 an hour and one week's paid vacation. McDonald's called the incident "isolated."

Unions have been leery of organizing fast-food places. Workers tend not to stay long. But news of the victory spread quickly, says Tocco, prompting 150 calls from other fast-food workers seeking union help. *Aaron Bernstein*

TALK SHOW "I guess we still have some bugs to work out"

—Bill Gates, after Windows 98 crashed during a presentation at the Comdex Spring Computer Show in Chicago



TURF WARS

LOUISVILLE'S PIZZA SLUGGERS

FOOD FIGHT! IT STARTED after Pizza Hut's parent, Tricon, moved its headquarters to Louisville last fall after being spun off from PepsiCo. The Derby City was already home to Papa John's International, the No. 4-ranked pizza chain and the bane of No. 1 Pizza Hut. Now, the rivals are accusing each other of everything short of serving salmonella slices.

Papa John's first targeted Pizza Hut with its "Be Ingredients. Be Pizza." TV spots. Censored, Pizza Hut, a local newspaper accused Papa John's of slandering. Cheap shots. "information," while snidely noting that Papa John's toppings are "hidden under the cheese." Then, God dragged into it. On Easter Sunday, Papa John's mouthed Pizza Hut's tort sauce in the papers. "family believes the hand God is better than the hand of man," the ad read, like Pizza Hut's sauce to "made in the laboratory." Can the pizza power achieve détente? The Business Bureau brokered peace on the TV ads. There's no truce in the war. Maybe George Mitchell has some spare time now he's forged a deal in Northern Ireland. *Dennis Berne*

LITIGATION NATION

WHY GAY JOKES MAY MAKE DRESDNER GLUM

HARD ON THE HEELS OF Salomon Smith Barney's \$15 million-plus sexual-harassment settlement, a gay discrimination suit, believed to be the first of its kind on Wall Street, is wending its way through the courts. And if it ends the way plaintiff Joseph Daniel wants it to, his former employer, Germany's Dresdner Bank, could be on the hook for millions.

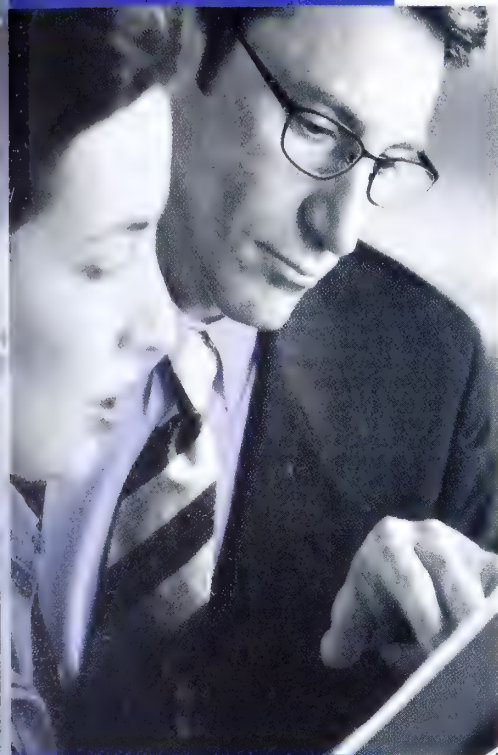
Daniel says that homophobia, including colleagues' unrelenting "fag jokes," prompted his demotion and eventual dismissal in April, 1997. In federal court, he is asking for \$75 million in damages, alleging that Dresdner violated New York City's prohibition

against bias based on sexual orientation. Federal courts can preside over cases between U.S. citizens and foreign companies. Lambda Legal Defense Fund is not aware of any previous suit involving Wall Street.



DANIEL: Bias?

Dresdner moved to dismissing the allegation that his demotion was a result of Daniel's job being rethought. That his position was lost through downsizing, not bias. Daniel argues that Dresdner was technically employed by Dresdner securities division, meaning that his complaint should go to arbitration under standard procedure for brokerage houses—and not court. *Joanne*



When you're looking for the most
outstanding
solutions
to your
outsourcing
needs,

there are only **two companies**

to consider...

and they've just
become
one.

The leading food and
facilities management
services provider to
corporations, health care
institutions, higher education
and school systems in the
United States and Canada.

SDH
Listed
NYSE

1-800-763-3946 ext. 85445

www.sodexhomarriott.com


Sodex^{*}ho Marriott
SERVICES

*Marriott is a registered trademark of Marriott International, Inc., used pursuant to license. In March 1998, Marriott Management Services, a former division of Marriott International, Inc., combined its operations with Sodexho Alliance's in North America. ©1998, Sodexho Marriott Services, Inc.



You're the fastest growing Internet service provider.
But for how long?

There's a company that knows how to keep you number one.



SPEEDING SUCCESS

We at Nortel can help you deliver the high-speed data your Internet customers will want, at a very affordable price. In New York City, we helped one ISP offer a reliable, around-the-clock, extended network that rapidly attracted new subscribers. Our vision is webtone: an Internet that's accessible, reliable and secure. We're providing the bandwidth you need to deliver new access speeds and services. If you want to keep your Internet customers happy and your profits high, visit us at www.nortel.com/success1. Or call us at 1-800-4NORTEL. We'll help speed your success.

NORTEL
NORTHERN TELECOM

CORRECTIONS & CLARIFICATIONS

The name of Sara Lee Vice-President George A. Chivari was misspelled in "Sara Lee: Playing with the recipe" (The Corporation, Apr. 27).

"High school Greenspans" (Economic Trends, Apr. 27) should have said that the "Fed Challenge" contest for high school economics students is sponsored by the Federal Reserve Board's regional banks. Citibank provides scholarships for winners but does not sponsor the contest.

pes of experimentation, I make the point in the book that "most of the molecular biologists engaged in gene research are motivated as much by their desire to make a meaningful contribution to science and enhance the human condition as they are by dreams of financial rewards."

The fact is, while I applaud some of the new breakthroughs in biotechnology, I am critical of other uses, such as the controlled release of genetically engineered organisms into the environment, the extension of intellectual-property rights to the genetic blueprints of millions of years of evolution, and the discriminatory use of genetic information by employers and other institutions in hiring and job promotions.

Finally, Hamilton dismissed my discussion of "soft path" technological approaches as "bio-babble." The "soft path" exploiting the new genetic science, ranging from organic, sustainable agriculture to preventive health technologies and practices, might prove a more efficient and less risky approach to harnessing breakthroughs in genetic science. Organic agriculture is the fastest-growing sector of the food industry—with sales expected to exceed \$4 billion this year—while the preventive health market is growing even faster. There is more than one way to organize genetic commerce in the coming Biotech Century.

Jeremy Rifkin
Foundation on Economic Trends
Washington

THE BENEFITS OF CALCIUM CHANNEL BLOCKERS

"Is good marketing bad medicine?" (Science & Technology, Apr. 13) is an incomplete account of a major public-health issue: high blood pressure. Calcium-channel blockers (CCBs) play a valuable role in the treatment of hypertension because physicians have found them to be effective in lowering blood pressure, with fewer side effects compared with older drugs such as beta

blockers. Because they are well tolerated, CCBs can be used safely in a broad range of antihypertensive patients.

Fundamentally, that's why CCBs are used regularly by physicians and preferred by many patients. The benefits of CCB treatment were demonstrated in a National Institutes of Health trial that showed more CCB patients remained on their medicine after four years than patients taking a beta blocker, ACE inhibitor, or diuretic. The safety of CCBs has been reviewed by the Food & Drug

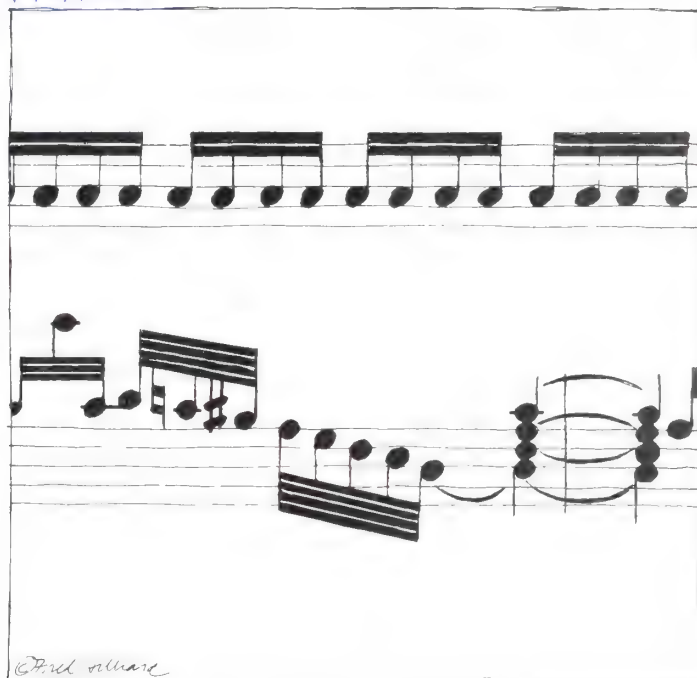
Administration, World Health Organization, and other medical organizations.

Joseph M. Feczko
Senior Vice-President
Pfizer Pharmaceuticals Group
New York

DOES THE MONEY SUPPLY MATTER MUCH ANYMORE?

Monetarists concerned about the recent spike in the money supply ("The Fed may have something to worry

WillTales



A musical comparison between the bandwidth most networks promise (top) and the inherently flexible bandwidth Williams delivers (bottom).

that **Williams** network

11,000 fiber miles laid, lit and ready to ride.

Visit www.willtales.com or call 1-800-WILLIAMS, for noteworthy telecom solutions



SuperDisk, the SuperDisk design trademark, compatibility symbol, Imation and the Imation logo are trademarks of Imation Corp. All other trademarks are properties of their respective companies. © Imation 1998.

**Introducing SuperDisk.
To you it's a 120MB diskette.
To floppies, it's "Mr. Compatibility."**

Get a fast, floppy-compatible SuperDisk™ Drive in your next computer and give your floppies a new buddy: the SuperDisk diskette, with 120 big, friendly megabytes of room. With as much room as 83 floppies, SuperDisk™ still knows how to share. You're thinking, "How touching – but what's in it for me?" This is what: a hassle-free way to handle big and small files through a single drive.

No boxes, no cables, no nothing. SuperDisk™ Available

now in leading notebooks and PCs.

Save a little, save a lot, save the world.



SUPER DISK™
120MB

Find out where to get SuperDisk
www.superdisk.com or
1.888.222.2294 ext.120



IMATION

Readers Report

about," News: Analysis & Commentary, Apr. 13) are making the classic mistake of confusing correlation with causation. U.S. inflation since at least the mid-1960s has been caused not by rapid money growth but by credit growth, which is sparked by interest rates that are too low. Money growth, however rapid, is merely the consequence of many factors, including credit growth, because money

today is simply those forms of credit that also serve as media of exchange.

The inflation of recent decades was caused by the Federal Reserve signaling excessively low interest rates in the late 1960s and 1970s, which fostered inflationary credit growth. Fortunately, the financial markets now set longer-term interest rates, which produce noninflationary credit growth by neutralizing the Fed's continuing distortion of short-term rates. Money-supply growth warrants as much attention today as sales of cold cereals or french-fried potatoes.

Bert Ely
Alexandria, Va.

Pharmaceutical Corp. When inviting entists to serve on the board, we usu do not ask whether they have served a consultant to a pharmaceutical or ot company. This does not disqualify th to be editors of scientific journals.

Dr. Einar H. Fredriks
Publisher, IOS Press
Amsterdam

FINDING US ONLINE



The full text of Business Week, the Business Week Daily Briefing, and six years of BW archives are available on the World Wide Web at:

www.businessweek.com

and on America Online at Keyword: BW.
To sign up for BW on AOL, call (800) 641-4848 and mention Business Week.

maven

Shopping for computer equipment? Visit Maven, our online Computer Buying Guide, for continuously updated ratings and price information.

Go to Keyword: Maven on America Online, or to the World Wide Web at:

www.maven.businessweek.com

IN DEFENSE OF A MEDICAL JOURNAL

Regarding "Scientific journal—or vanity press?" (Developments to Watch, Apr. 6), the *Journal of Alzheimer's Disease* is published by IOS Press in Amsterdam, which also owns the journal. IOS Press publishes 17 biomedical journals with the highest scientific standards and scientifically independent from any commercial interests. A few of our 26 editorial board members serve or have served, as I understand it, as consultants to Nymox

HOW TO REACH BUSINESS WEEK

LETTERS FOR READERS REPORT

All letters must include an address and daytime and evening phone numbers. We reserve the right to edit letters for clarity and space and to use them in all electronic and print editions.

Mail: Business Week, 1221 Avenue of the Americas, 39th floor, New York, NY 10020

Fax: (212) 512-6458

Internet: bwreader@mcgraw-hill.com

America Online: readersbw

SUBSCRIBER SERVICES

For individual subscriptions, corporate subscription renewals, changes or problems, and single copies.

Phone: (800) 635-1200 or (609) 426-7500

Fax: (609) 426-7623

Internet: bwhelp@mcgraw-hill.com

REPRINTS AND COPYRIGHT PERMISSIONS

For custom reprints (minimum order of 500) contact (609) 426-5494

Before quoting or reusing editorial material.

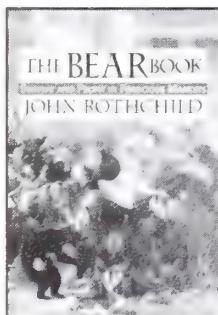
Phone: (212) 512-4801

Fax: (212) 512-4938

Books to be bullish about..

(even if they're about bears)

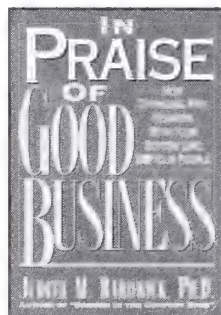
Published by John Wiley & Sons, Inc.



0-471-19718-1 288 pp. \$24.95*

"A slew of books tell you how to profit on the upside of the stock market, but *The Bear Book* is unique. It gives you tools to handle the down side. Read it and you'll become a more effective investor."

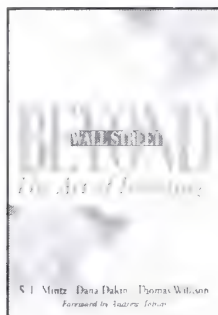
—Peter Lynch



0-471-19408-5 304 pp. \$24.95*

"...a seminal achievement of how organizations can maintain a delicate balance between risk and recklessness."

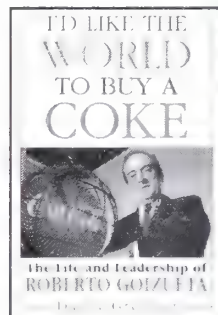
—Warren Bennis



0-471-24737-5 240 pp. \$24.95*

"The stars of *Beyond Wall Street* developed their own investment styles and followed them. Follow their lead and learn how to make money your way."

—Jim Rogers



0-471-25407-X 352 pp. \$24.95*

Roberto Goizueta created more stockholder wealth than anyone in history. Find out exactly how he did it and how he gave the world a Coke.

*Please add applicable sales tax, plus \$3.50 for U.S. postage and handling

The McGraw-Hill Bookstore

Information for Today's Professional

1221 Avenue of the Americas, New York, NY 10020

To Order: By phone: (212) 512-4100; outside NY 1-800-352-3500

Or Fax to: (212) 512-4105 • Major credit cards accepted

Or Order from the bookstore Web site at:

www.bookstore.mcgraw-hill.com

The McGraw-Hill Companies



**Fairfax County has one of the best
educated populations in the country.**

The numbers stack up this way: 56% of the adults hold college degrees. 91% of their children pursue post-secondary study. 89% take the SAT exam, scoring 72 points higher than the national average. We have a science and technology magnet school that regularly produces more National Merit Scholarship semifinalists than any other. And a university, George Mason, that was the first to offer a doctorate in IT. If your business depends on bright, creative minds, it's almost a no-brainer: Call 703-790-0600 or visit our Web site. And move your business to Fairfax County.

FAIRFAX COUNTY, VIRGINIA. HOME OF THE 1998 WORLD CONGRESS ON INFORMATION TECHNOLOGY.

www.FairfaxCountyEDA.org

THE BUSINESS WEEK BEST-SELLER LIST

HARDCOVER BUSINESS BOOKS

- 1 **THE 9 STEPS TO FINANCIAL FREEDOM** by Suze Orman (Crown • \$23) *Handling money, by a Self magazine writer.*
- 2 **THE MILLIONAIRE NEXT DOOR** by Thomas J. Stanley, PhD, and William D. Danko, PhD (Longstreet Press • \$22) *The penny-pinchers shall inherit the earth.*
- 3 **DIE BROKE** by Stephen M. Pollan and Mark Levine (HarperBusiness • \$25) *Forget about the will—and the conventional wisdom, says a financial adviser.*
- 4 **SELLING THE INVISIBLE** by Harry Beckwith (Warner • \$15) *A collection of bite-size lessons on marketing.*
- 5 **THE GORILLA GAME** by Geoffrey A. Moore, Paul Johnson, and Tom Kippola (HarperBusiness • \$26) *Spotting high-tech stocks that dominate their market niches.*
- 6 **CHARLES SCHWAB'S GUIDE TO FINANCIAL INDEPENDENCE** by Charles R. Schwab (Crown • \$23) *Tips from the discount brokerage CEO.*
- 7 **FINANCIAL PEACE** by Dave Ramsey (Viking • \$21.95) *Getting out of debt—for good.*
- 8 **YOU HAVE MORE THAN YOU THINK** by David and Tom Gardner (Simon & Schuster • \$25) *Help for the investment-challenged.*
- 9 **EVERY INVESTOR'S GUIDE TO HIGH-TECH STOCKS & MUTUAL FUNDS** by Michael Murphy (Broadway • \$27.50) *Tips from the editor of the California Technology Stock Letter.*
- 10 **BUFFETTOLOGY** by Mary Buffett and David Clark (Scribner • \$27.50) *An ex-daughter-in-law's take on Buffett's techniques.*
- 11 **WALL STREET MONEY MACHINE** by Wade B. Cook (Lighthouse Publishing • \$24.95) *A former cab driver's formulas for striking it rich.*
- 12 **JACK WELCH SPEAKS** by Janet Lowe (Wiley • \$16.95) *Quotes from GE's man, culled from speeches, news stories, and his own writings.*
- 13 **THE WORLD ACCORDING TO PETER DRUCKER** by Jack Beatty (Free Press • \$25) *A survey of the management guru's thought.*
- 14 **REACH FOR THE SUMMIT** by Pat Summitt with Sally Jenkins (Broadway • \$25) *Drills for success from the coach of the University of Tennessee's Lady Vols.*
- 15 **STOCK MARKET MIRACLES** by Wade B. Cook (Lighthouse Publishing • \$24.95) *Investing fundamentals—and infomercials for the author's many wares.*

PAPERBACK BUSINESS BOOKS

- 1 **THE SEVEN HABITS OF HIGHLY EFFECTIVE PEOPLE** by Stephen R. Covey (Fireside • \$12) *Habitually popular.*
- 2 **THE MOTLEY FOOL INVESTMENT GUIDE** by David and Tom Gardner (Fireside • \$12) *The online duo puts it on paper.*
- 3 **SUCCESS IS A CHOICE** by Rick Pitino with Bill Reynolds (Broadway • \$13) *Coach says work harder, harder!*
- 4 **THE ERNST & YOUNG TAX GUIDE 1998** by the Tax Partners and Professionals of Ernst & Young LLP (Wiley • \$15.95) *Time's up, folks.*
- 5 **THE 1998 WHAT COLOR IS YOUR PARACHUTE?** by Richard Nelson Bolles (Ten Speed Press • \$16.95) *The enduring job-search bible.*
- 6 **THE MOTLEY FOOL INVESTMENT WORKBOOK** by David and Tom Gardner (Fireside • \$12) *"So, where do I find stocks?" and other queries, asked and answered.*
- 7 **J.K. LASSER'S YOUR INCOME TAX 1998** by the J.K. Lasser Institute (Macmillan • \$14.95) *Put down your pencils.*
- 8 **1001 WAYS TO REWARD EMPLOYEES** by Bob Nelson (Workman • \$10.95) *Give them a champagne brunch, a casual-dress day—or plain old cash.*
- 9 **THE WALL STREET JOURNAL GUIDE TO UNDERSTANDING MONEY AND INVESTING** by Kenneth M. Morris and Alan M. Siegel (Fireside • \$13.95) *Concise explanations enriched with graphics.*
- 10 **GETTING TO YES** by Roger Fisher, William Ury, and Bruce Patton (Penguin • \$11.95) *A Harvard team's step-by-step guide to conflict resolution.*
- 11 **BUILT TO LAST** by James C. Collins and Jerry I. Porras (HarperBusiness • \$14) *How 3M, Wal-Mart, Procter & Gamble, and others became standouts.*
- 12 **INVESTING FOR DUMMIES** by Eric Tyson, MBA (IDG Books • \$19.95) *From stocks to small business—with cartoons, too.*
- 13 **YOUR MONEY OR YOUR LIFE** by Joe Dominguez and Vicki Robin (Penguin • \$11.95) *To achieve financial independence, restructure your life.*
- 14 **BARRON'S DICTIONARY OF FINANCE AND INVESTMENT TERMS** by John Downes and Jordan Elliot Goodman (Barron's • \$11.95) *What is an oligopsony anyway?*
- 15 **PERSONAL FINANCE FOR DUMMIES** by Eric Tyson (IDG Books • \$19.95) *Lighthearted primer.*

BUSINESS WEEK's Best-Seller List is based on a survey of chain and independent booksellers that carry a broad selection of books on economics, management, sales and marketing, small business, investing, personal finance, and careers. Well over 1,000 retail outlets nationwide are represented. Current rankings are based on a weighted analysis of unit sales in March.

Reviews and more are available on AOL (Keyword: BW) or www.businessweek.com (Click on BW Plus!)

HOT TYPE

FEW CHIEF EXECUTIVES HAVE BEEN AS insightful about the art of leading others as General Electric Co. Chairman and Chief Executive John F. Welch Jr. In *Jack Welch Speaks*, the No. 12 hardback on this month's best-seller list, writer Janet Lowe collects some of the most pithy quotations from Chairman Welch, made over his nearly 17-year stint at the top.

What emerges is a far less satisfying portrait of the Welch revolution than that contained in Noel M. Tichy and Stratford Sherman's 1993 book, *Control Your Destiny or Someone Else Will*. Welch's quotations are stitched together, often awkwardly, by short descriptive passages. And some facts are just plain wrong: For instance, Welch's Salem (Mass.) boyhood

home was at 15 Lovett St., not Locust St. as Lowe contended.

Yet there is something compelling about these citations. Culled largely from Welch's annual letters to shareholders, speeches, and news clippings, his musings entertain as well as enlighten. For example, in describing the candor encouraged at GE, Welch notes: "We strive for the antithesis of blind obedience. We want people to have the self-confidence to express opposing views, get all the facts on the table, and respectfully offering opinions."

You won't find any new insights into this complex and extraordinary leader. But you will understand what he became and champions in this compact, 232-page book.

BY JOHN ERIC



I'M NOT YOUR TYPICAL SELF- MADE MAN™

"So I don't go to your typical place to invest. I'm with E*TRADE. Where else can I get a choice of 3,500 mutual funds? Options trading? Some of the lowest margin rates? Stocks from just \$14.95* a trade? Plus, daily interest on uninvested funds, and free check writing? Hmm? Well, where?"

Everyday, more and more people are getting greater value at E*TRADE. Join them. Open an account today.

www.etrade.com 1-800-ETRADE-1

Someday, we'll all invest *this* way.™



E*TRADE®

and stop orders are \$19.95. For listed orders over 5,000 shares, add 1c/share to the entire order.
for broker-assisted trades. Fund prospectuses contain more complete information. Read carefully before investing. ©1998 E*TRADE Securities, Inc. Member NASD, SIPC. MBSWK98

Why did you stop asking



Huatt International Corporation and its subsidiaries, including its major subsidiaries, are operated by two separate groups of companies: Huatt Corporation and its affiliates, and Huatt International Corporation and its affiliates.

Travel with the American Express Card and enjoy Cardmember privileges like Assured Reservations to guarantee your room, even if you arrive late. With more than 1,700 Travel Service locations in over 130 countries,** the American Express worldwide network can also assist you with travel arrangements, letter pick-up, and American Express Travelers Cheques. It's smart business to make the American Express Card your constant travel companion. To apply for the Card, call 1-800-THH-CARD, or visit us at www.americanexpress.com. Ask your travel planner for details.** Not all services available at all Travel Service locations and are subject to local laws and cash availability.



e window seat?



The more you travel, the easier it is to forget that a flight can be a breathtaking experience, not merely a means of reaching your destination.

But at Hyatt, we haven't forgotten that every journey should be an uplifting event. Even after you've landed.

That's why we fill our hotels and resorts with so many opportunities to broaden your horizons. Unique restaurants in the sky where you can dine with sparkling cities at your feet.



Meeting rooms that free your imagination by opening to grand panoramas. Lobbies that greet you with spectacular architecture and dramatic vistas.

Instead of merely a place to stay at your destination, a Hyatt is a destination in itself. A place to experience. A window seat, if you will, that always rewards you with a fresh, new perspective.

So ask to stay with the people of Hyatt. We think you'll like what you see.

For reservations, contact your travel planner or call Hyatt at 1-800-233-1234. Or visit us at www.hyatt.com



Feel the Hyatt Touch®



BERLIN THE BEST PLACE

TO CAPTURE

YOUNG TIGER MARKETS.



The OECD forecasts annual economic growth of 6 to 10% for the new tiger markets of central and eastern Europe. These markets, connecting to western Europe at a breathtaking pace, surround Germany's capital, Berlin. Berlin offers all the necessary contacts, know-how and modern infrastructure for your business to be in the best possible location to benefit from those rapidly expanding economies. We would be delighted to be of service to you: Berlin Economic Dev. Corp., Fax: + 49 (30) 399 80-239, e-mail: info@wf-berlin.de, Internet <http://www.berlin.de>

Your Gateway to Berlin

Books

ON THE FIRING LINE

My 500 Days at Apple

By Gil Amelio and William L. Simon
HarperBusiness • 298pp • \$25

FROM APPLE TO SOUR GRAPES

For years, "How would you fix Apple Computer?" had been a favorite parlor game in some Silicon Valley circles. Now, with the computer maker's fortunes stabilizing, a new game is emerging: "Were you skewered in Gil Amelio's new book?" After all, in *On the Firing Line: My 500 Days at Apple*, the ousted Apple boss gathers all the ammo he can find and fires back—taking aim at everyone from reporters, including this one, to such powerful figures as Microsoft Corp. Chairman William H. Gates III and current Apple CEO Steven P. Jobs. Snarls Joseph A. Graziano, Apple's former chief financial officer and one of Amelio's many victims: "If he'd dealt with Apple's problems with the same speed as he publishes books promoting himself, he might have had more success."

Indeed, you would think Amelio would be off licking his wounds rather than baring his soul. Replaced by Jobs last July—just seven months after buying Jobs's NEXT Software Inc.—Amelio presided over a period marked by financial disasters, plunging market share, and, worst of all, a lack of the tough-minded decision-making that Jobs has since delivered.

But if *On the Firing Line* won't win Amelio friends or restore his reputation, it will keep readers tantalized. Unlike *Profit From Experience*, the pedantic 1995 management tome also co-authored by Amelio and business writer William L. Simon, this book is a fast-paced, heartfelt look at life as a Silicon Valley chieftain. And, oh, those war stories, which show powerful high-tech figures at their most vulnerable. There's a shell-shocked Graziano sobbing to Amelio after being ousted by Apple's board in late 1995. At a key Mac in-

dustry event, we see Jobs throw "Steve-trum" and refuse to stand next to ex-partner Stephen Wozniak for photo.

Amelio also fills in bits of history that recast Apple's recent spate of good news in a different light. For example, when Jobs earned kudos for forging a partnership with Microsoft last July, Amelio reveals that he had started the talk himself long before. "I wouldn't make the commitments that Bill [Gates] wanted because I was unwilling to give anything in return," he writes. "I was prepared to wait him out. In the end, Gates would win by waiting me out."

Indeed, Amelio presents a compelling, if highly biased, view of one of America's most controversial corporations. He lays bare the lack of management discipline that has plagued Apple for years.

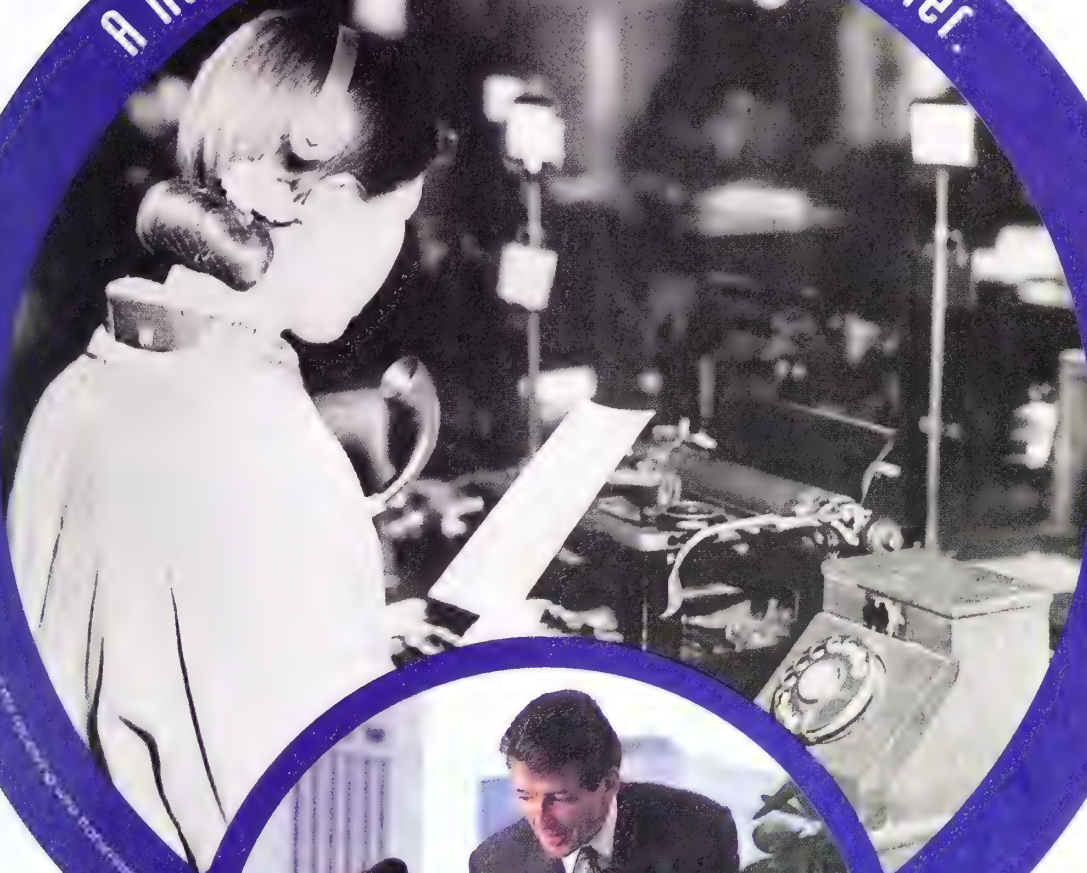
For example, when top managers ignore his plea for help with a key strategy-setting project, he's reduced to locking them out of the conference room where he and a few aides work on the plans. There are lots of highs early in his tenure, such as getting a standing ovation at one of Apple's rock-concert-like company meetings. But most of the book focuses on his excruciating fall from grace. When a teleprompter breaks during a major speech before thousands of Mac fanatics, he suffers a nightmarish humiliation that is prolonged in a crush of articles ridiculing not only his performance but also his too-hip collarless shirt he wore. And he gives the blow-by-blow of his final cry at the helm, right up to his firing—via Fourth of July weekend phone call from board member Edgar S. Woolard Jr.

Amelio does take much of the blame



AMELIO SCOLDS HIMSELF—THEN BLASTS A LOT OF OTHERS

A history of bringing people together.



Japan's leading telecom provider — NTT — has been connecting people and businesses with cutting-edge services for over 100 years. Today, our *Global Systems Integration Services* provide failsafe solutions for end-to-end corporate connections around the planet. And our *Arcstar Global Communications Services* unite major cities across the U.S., Europe and Asia with high-speed infocommunication highways. As we continue to branch into new areas, one principle is certain to endure: we're here to bring people together, now and for generations to come.

Connecting the world through multimedia

For more information on how NTT can connect you, call 1-800 4 NTT USA, or visit our website: <http://www.nttinfo.ntt.co.jp>



NIPPON TELEGRAPH AND TELEPHONE CORPORATION



EMC EFFECT™

EMC® is a registered trademark and EMC, EMC Enterprise Storage, The Enterprise Storage Company and The EMC Effect are trademarks of EMC Corporation.
©1998 EMC Corporation. All rights reserved.

Until now, "your company's information" was an abstract term — something impossible to quantify or put your finger on, much less see for all its potential. The result of separate and distinct islands of information,

It gives everyone who

most commonly known as databases, mainframes, UNIX and NT servers. Linking those islands is what EMC Enterprise Storage™ can do. We're finally making it possible to consolidate data across all major

needs it a clear view of your

platforms. So no matter where "your company's information" was created, you can protect it, manage it, make it available to all who need it. In turn, they can make your products or services available faster

company's information.

and more competitively than ever before. The EMC Effect. You simply have to see it to believe it. Call 1-800-424-EMC2, ext. 301. Or visit us at www.EMC.com.

EMC²

The Enterprise Storage Company

After
we deliver
your Year-2000 solutions
and your Euro solutions...

in record time,

you'll probably want us to build your

CRITICAL BUSINESS APPLICATIONS

in record time!



**Time-to-market,
large-scale IT solutions.**

www.sapiens.com

for his troubled tenure upon himself. He admits he waited too long to decide the fate of Apple's Newton handheld computer—which Jobs summarily dropped earlier this year. Most damning, he grants he should have taken more drastic action sooner to downsize and break up the company into software and hardware units—suggestions Graziano says he had pleaded for as far back as 1995.

But most of Amelio's admissions just pave the way for criticisms of others. He berates himself for his inability to get staffers to come clean about the real status of Mac orders, but lambastes sales chief James J. Buckley as "brash and dead." While he scolds himself for predicting when Apple would return to profitability—a tactic that backfired when he was unable to maintain profit past a one-quarter gain in late 1996—he says it was all Woolard's idea. In the end, it's mostly Amelio's leadership that the reader is left questioning.

As for his dalliance with Jobs, Amelio admits he was played like a top by the manipulative company co-founder. The book's prologue recounts a visit from Jobs in late 1995, during which he asked Amelio, who had just joined the company's board, to help him retake the position. Yet even with this advance warning, and after Jobs allegedly lied to him and repeatedly failed to offer public support, Amelio didn't recognize danger until the end. "Betrayal, assassination, [and] trashing of reputations are part of the everyday tool kit of a person obsessed with power, control, or revenge," he writes. "I was in Steve's way and had to be eliminated."

If Amelio ultimately came around to this view of Jobs, big blind spots remained. He still complains of unfair media treatment. For example, Amelio accuses this reviewer of trying, with a piece written before last year's annual meeting, to foment shareholder revolt by pointing out that the five-year, \$10-million-plus pay package he had landed the year before was still subject to shareholder approval. But just because Apple's slow-moving board was forced a pinch to throw a world-class death sentence at Amelio, one of its own members, doesn't mean shareholders shouldn't exercise their right to agree or disagree.

Although Amelio may one day earn credit as the set-up man—should he return Apple to prosperity—his ledger hardly stacks up with his paycheck. On the other hand, one Amelio invocation seems justified: This compelling, flawed, memoir is well worth its \$22 price tag.

BY PETER BURROWS

Burrows covers Apple and other companies in Silicon Valley.

STEPHEN H. WILDSTROM

AN A LAPTOP E TOO FAST?

Pentium II models are speedy, but the cost in every time will be high for many

Iow fast do you want your laptop to be? Until recently, the usual answer was "as fast as possible." Laptops were slower than their desktop counterparts—indeed, they seemed sluggish even while performing such relatively demanding tasks as running Microsoft Word.

The latest Intel processors in notebooks, the 233-Mhz Pentium II and 266-Mhz Pentium II, were announced on Apr. 2, and we think speed isn't everything. These latest chips are available by just seven months after a rather thrifty set of chips called, simply, Pentiums. And earlier 266-Mhz notebooks that I have used seemed to have plenty of speed for all the most demanding tasks. For most people, they are fast enough to serve as top replacements.

THE HEAT. These new Pentium IIs will force laptop users to pay particular attention to which chip is in the laptop they buy. A number of design changes, including faster access to memory, make Pentium IIs cooler than their predecessors at equal clock speeds. They have a bigger appetite for electricity and run hotter than the previous generation of Pentiums. Intel's new 266-Mhz Pentium II outperforms a Pentium of the same rating by 30% to 35%, but laptop makers report a 20% decline in battery life. If you use your lap-

top for demanding applications, such as computer-assisted design, or if you work mainly on AC power, this trade-off may be attractive. But if you spend a lot of time running a word processor on batteries, the loss of 20 or 30 minutes of working time per charge could prove painful.

Manufacturers also are responding differently to the newest chip than they have to past processor introductions. Traditionally, new chips have gone first into top-of-the-line models and gradually worked their way down the food chain. But Intel has made it clear that it intends to push as quickly as possible to an all-Pentium II product line. This has forced manufac-

turers to redesign all of their notebooks to accommodate the new chip, which requires additional cooling and a redesign of a laptop's innards.

Partly as a result, the new chip is making its debut in both premium and midrange models. It's no surprise that you can get an IBM ThinkPad 770 or a Toshiba Tecra 780CDM with a 266-Mhz Pentium II for around \$5,000. But you also can get a Dell Latitude CPI or a Hitachi VisionBook Pro 7330 with a 233-Mhz version for \$2,999.

The redesign also has produced some intriguing new models, most of which will

have ever seen in a laptop.

Equally appealing, in a very different way, is the Micron GoBook. The basic GoBook, which starts at \$2,599 for a 233-Mhz Pentium II, is a 1.3-inch thick, 4.4-pound laptop with a bay that can hold a floppy, CD, or Zip drive. That makes for one highly portable notebook. Its distinguishing characteristic is a 0.4-inch-thick, 1.5-pound "slice" that clamps to the bottom of the computer. Instead of adding multimedia features, this slice is a giant lithium-ion battery designed to provide the GoBook with a staggering 11 hours of battery life, enough for a transpacific flight.

PATIENCE. If you are shopping for a new notebook computer and find a model that offers the features you want in both Pentium and Pentium II versions, which should you choose? Unless you have unusually demanding needs, I would favor the original Pentium. It will give you more battery life and will run cooler, a serious issue when you actually work with a laptop on your lap. And it will probably be \$300 or so cheaper.

The mobile Pentium II chip will really come into its own on laptops running Windows NT, which is optimized for the more powerful processor. But unless you are supplied with such a laptop preconfigured by your company, you would do best to avoid the complexity of NT on a notebook computer until Microsoft ships the mobile-ready version 5.0, probably early next year.

It has become increasingly true in the computer business that the latest and most powerful product is not necessarily the best choice for many buyers. Pentium II laptops are an outstanding example.



IBM'S THINKPAD 600 FAMILY

PROCESSOR

233 Mhz MMX Pentium-
266 Mhz Pentium II

DISPLAY

13-inch passive matrix,
12.1- or 13.3-inch
active matrix

HARD DISK

3.2-4.0 GB

RAM

32 MB

DIMENSIONS

11.8 in. x 9.4 in. x 1.4 in.

WEIGHT

4.64-5.55 lb.

PRICE

\$2,799-\$4,599

DATA IBM

be available in both Pentium and Pentium II flavors, at least for the rest of the year. One of the most interesting is the IBM ThinkPad 600 series, with prices starting at \$2,799 for the 233-Mhz Pentium version.

The 600 is a follow-on to IBM's thin and light ThinkPad 560, which will remain in the product lineup. At 1.4 inches thick, the 600 is 0.2 inches thicker than a 560, but that creates just enough room for a bay that can hold a floppy drive or CD-ROM drive—and, eventually, a Zip drive or DVD drive, or a second battery. With the bay empty, the 600 weighs in at just under five pounds. It also features what may be the best keyboard I



smart cookie.

 It's far more than a snack. It's a cultural icon. 
And today, freshly packaged by some innovative automation
technology from Rockwell, Nabisco's Oreo® cookie is finding
ways to take an even bigger bite of its market.  That's
typical of the intelligent solutions we offer all kinds
of customers.  Whether it's the semiconductor chips
that enable products from leaders like Brother, Panasonic
and Sharp to fax hundreds of millions of pages each day. 
The avionics that enhance the efficiency of airline
fleets.  Or the automation systems that control
the temperature in the Louvre to preserve the mystery
of the Mona Lisa's smile.  Smart answers for
smart companies.  Because whatever your business,
the bottom line is this.  *You succeed. We succeed.*

Rockwell

Electronic Controls and Communications
www.rockwell.com

BY JEFFREY E. GARTEN

THE EURO WILL TURN EUROPE INTO A SUPERPOWER



NEW RIVAL:
The currency could pose a challenge to the supremacy of the U.S. by creating the world's second-largest economy

Here is a prediction: Europe's impending creation of a monetary union with a single currency, the euro, will be the most important change in the global economy well into the next century. It will have a more lasting impact than virtually any other economic event that can be imagined—such as the reemergence of Japan as a powerhouse or the extension of NAFTA throughout South America. And it could pose a serious challenge to America's economic supremacy.

A major step on the road to Europe's ascendance will be taken over the weekend of May 1-3, 1998, when the leaders of the European Union will formally select the founding members of the European Monetary Union. The euro will be introduced in January, and within three years it will completely replace German marks, French francs, Italian lira, and Spanish pesetas. Sure, there will be policy chaos and huge technical problems all along the way, but when the dust clears, the EMU area will be the world's second-largest economy, consisting of 288 million people and a gross domestic product of nearly 20% of the global's total.

A common currency will have the following repercussions:

- Businesses and individual consumers will find it much easier to buy and sell products and services across European borders. Intra-European trade and commercial competition will soar, companies will be forced to shape up, and a wave of megamergers will create powerful pan-European companies.

- A Europe-wide capital market will emerge for the first time, offering enormous cross-border opportunities for borrowing and investing. Meanwhile, EMU will act as a catalyst for more flexible labor markets and for more harmonized European policies for everything from taxes to banking regulation.

- The European Central Bank—which, by law, will be highly independent—will follow in the conservative footsteps of Germany's Bundesbank and create conditions for low inflation and healthier economic growth throughout the region.

- The euro will become a powerful rival to the dollar for central banks' reserves and trade financing. Russia and all of Eastern Europe will be drawn into the new euro zone, bringing them under Western Europe's political sway. The European Union will gain substantial clout in the Group of Seven, the In-

ternational Monetary Fund, and the World Trade Organization.

Skeptics—and they include several highly respected economists on both sides of the Atlantic—believe that Europe won't be able to hold together. Among their reasons: tight monetary policies might be demanded by Germany or Holland but be unacceptable in Spain or Italy, creating severe pressures for the latter to bolt from the Union. Pessimists say there is no precedent for a lasting economic union without a strong central government. They worry that an EMU collapse within a few years could set off a major global financial and trade crisis as everyone dumps euros for dollars, and as Europe moves back to its history of destructive national rivalries.

SHOCK TREATMENT. Don't worry—this calamity won't happen. The dark scenario ignores the half-century march in Europe toward unification. It also fails to acknowledge Europe's powerful self-interest in overcoming its current economic and social arthritis—a feat that can be accomplished only with the market-oriented shock treatment administered by a painful transition to a single currency. Anyone underestimates the pressures that underlie today's globalization, including the powerful forces for more trade and investment and the relentless growth of global competition pressing for a borderless marketplace. Indeed, the momentum is already making itself evident—in the quickening pace of deregulation, the growth of venture-capital funds and startups, and in Europe's sizzling stock markets.

Not only will EMU succeed but it will eventually pose a major challenge to Wall Street, Corporate America, and Washington. Already, when America's boom ends, we will be the world's largest debtor, whereas the EMU region will be a net creditor. We will continue to run chronic trade deficits, while the European Union amasses large surpluses. We will not have reversed our super-low savings rates, while EMU members will have no such problem. American companies will want to keep an eye on the emergence of European corporate giants and the long tradition of European governments helping their own businesses win big commercial projects in emerging markets.

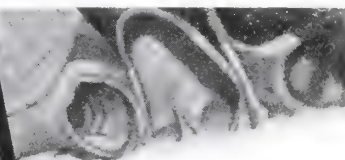
A lot of experts are pointing to the need for Europe to brace for the changes ahead. We should be.

Jeffrey E. Garten is dean of the Yale School of Management. A former investment banker, he was Under Secretary of Commerce for International Trade in the first Clinton Administration (jeffrey.garten@yale.edu).

Readers Report

SCEPTERED LABS, INC. CLONES REPLACEMENT HEARTS

Two hearts are better than one. Sceptered Labs, Inc.'s replacement hearts are a scientific marvel. The new hearts are being used to patients with heart failure, replacing the old hearts.



**TRADE
NOW**



TM

Big news can mean big opportunity. Points can be made in a heartbeat. So Trade Now™. Go directly to Datek...the fastest and easiest way to invest on the web. Only \$9.99 a trade*. And if it's not executed within 60 seconds, it's commission-free. Trust your trade to Datek. And keep your finger on the pulse

www.datek.com

* All trades up to 5,000 shares are only \$9.99. Your commission is waived if your marketable order is not executed within 60 seconds. Some restrictions to this offer apply. Please check our website for more details. Average execution time on marketable orders is less than 10 seconds (as of 1/16/98). Free news, charts and research provided by NewsAlert, BigCharts and Thomson Investor's Network. Trade Now is a servicemark of Datek Online. © 1998 Datek Securities Corp., Member NASD, SIPC, and the Boston Stock Exchange.

**DATEK
ONLINE**

Now that you know where we are, perhaps you would like to k



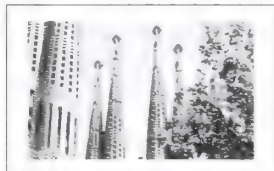
TOKYO



FRANKFORT



LUXEMBOURG



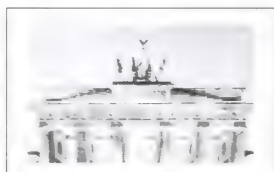
BARCELONA



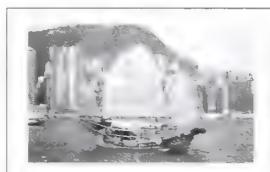
JERSEY



LYON



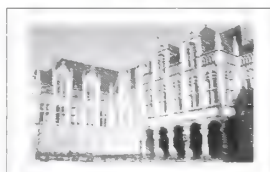
BERLIN



HONG KONG



BRUSSELS



LIEGE



ANTWERP



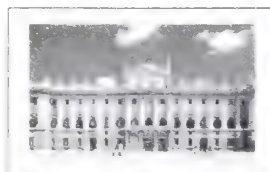
GAND



DIJON



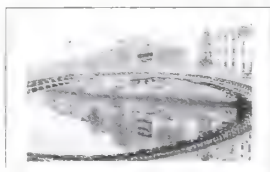
LISBON



MADRID



LONDON



DUBLIN



MARSEILLE



Dexia, the European banking
created by the merger of Credit
France and Crédit Communal de
reported total assets of 185 billion

e about us.



MILAN



MONS



ORLEANS



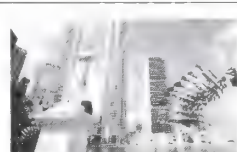
LILLE



RENNES



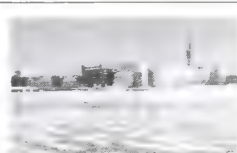
ROME



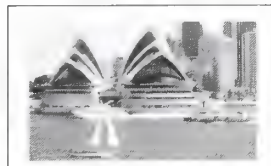
SINGAPORE



NEW YORK



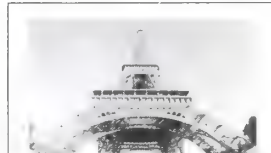
STOCKHOLM



SYDNEY



TOULOUSE



PARIS



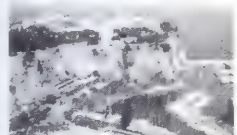
VIENNA



ZURICH



MONTEVIDEO



MONACO



NANCY



of 1997. The group provides a
of banking services. In addition,
the European leader in the
of public service facilities.



Cr dit Communal

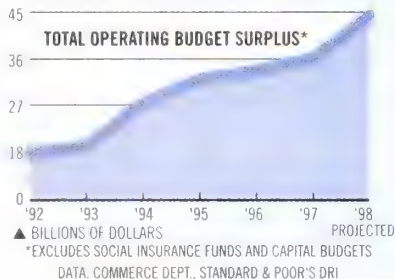
BY GENE KORETZ

DANGER: FISCAL STIMULUS AHEAD

States cut taxes, boost spending

With unemployment at its lowest level in a generation and economic activity still on the high road, about the last thing the economy needs is a shot of fiscal stimulus. And so far, there's little sign that it's getting much from Washington. Although the temptation to spend the expected federal budget surplus (which some analysts

SURGING STATE AND LOCAL BUDGET SURPLUSES



think could hit \$30 billion this fiscal year) or to dole it out via tax cuts is strong, so is the pressure to use it to reduce the national debt and strengthen Social Security.

At state and local levels, however, notes economist Mitchell J. Held of Salomon Smith Barney, such constraints are far less apparent. "Just as at the Treasury, revenues have been streaming into state and municipal government coffers," he says. "But in this case, the inevitable reaction has been to cut taxes and boost spending."

Last year, the combined state and local operating budget surplus hit \$36.4 billion, its highest level in more than a decade. And this year, according to Standard & Poor's DRI, a unit of The McGraw-Hill Companies, the combined surplus is likely to surge by 22%, to \$44.7 billion (chart).

As the money rolls in, observes economist Mark Zandi of Regional Financial Associates, states and cities are unlikely to hang on to a lot of it very long. For one thing, many are required to maintain balanced budgets once their "rainy day" funds are filled. For another, a projected surge in grade school and especially high school enrollments over the next decade is already triggering

higher educational spending. Finally, 30 governorships are going to be up for election this fall—"a potent political recipe for new tax cuts and spending programs."

Up to now, fiscal stimulus has mainly taken the form of tax relief. Thirty-four states cut taxes last year (vs. 14 that raised them), and the Center for the Study of the States at the State University of New York in Albany, predicts that more than half the states will enact sizable tax cuts this year.

But spending is rising, as well. Indeed, strong state revenue growth has already accelerated a number of infrastructure projects, including Boston's "Big Dig" tunnel, Texas' I-35 highway expansion, and the massive rail-and-highway project linking the ports of Los Angeles and Long Beach.

More is on the way. Mitchell Held notes that funds raised by states and localities hit a 10-year high last year, and debt issues so far this year are running 35% over 1997's pace. Historically, he says, such new money increases almost always foreshadow sizable pickups in government infrastructure outlays. "Unfortunately," he warns, "such project spending may kick in just when the economy needs more restraint."

OVERTIME VS. NEW FACTORIES

Why industrial building has ebbed

Here's a riddle: Housing outlays are booming, and commercial construction is picking up steam. But industrial construction, which surged in the late 1980s, has been declining steadily over the past three years—even though manufacturing output has been growing far faster than it did a decade ago. Why the disparity in investment in bricks and mortar?

A big part of the answer, according to economist Michael J. Montgomery of Standard & Poor's DRI, appears to be the sharp rise in the use of overtime for factory workers. While some facilities, such as steel mills and petrochemical plants, typically run around the clock, he observes, others don't normally work three shifts or run on weekends. When they do, they obviate the need to build an extra plant.

In the late 1980s, industrial overtime averaged about 3.8 hours per week. In recent quarters, it has averaged about an hour more than that. DRI calculates that investment in industrial structures

would have had to have been boosted sharply in recent years if factory overtime had not risen steadily over the period. Indeed, according to *Ward's Automotive Reports*, 6% of vehicles assembled in North America last year resulted from overtime production—equivalent to the output of an additional 4.4 auto plants running straight time.

Thus, at least over the short run, manufacturers have not only saved fringe benefits and hiring expenses by resorting to overtime. According to DRI, they have also avoided spending millions and probably billions of dollars on new plants. Whether this strategy proves wise over the long run or costs some manufacturers market share when the global economy picks up steam, however, is another question.

MORE JOBS ON THE LOW END

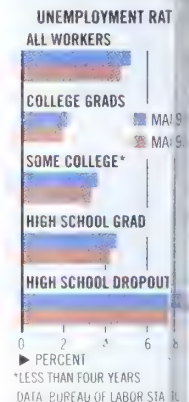
Even the least-skilled find work

Just how tight is the labor market? Useful light on the issue comes from new data recently unveiled by the Bureau of Labor Statistics. The new series, which provides unemployment rates by adult workers (25 years and older) by educational background, suggests the market is as tight as a drum.

For one thing, though joblessness came in at a mere 4.7% in March, just 0.1% above its cyclical low touched in February, the rate among college graduates, the most skilled group of workers, stayed at a rock-bottom 1.9%. And the rate for high-school grads, the largest contingent of workers, was only 4.2%—also far below the level most economists believe is consistent with stable inflation.

But the most telling sign of tightness is the fact that the biggest decline in unemployment over the past year has occurred among high-school dropouts (chart). Faced with acute labor shortages, many employers are apparently reaching deep into the labor pool for the least skilled workers.

JOB MARKETS TIGHT ACROSS THE BOARD



Get inside the:

mind

Body

SOUL^{of}

R/3



**Developers
Programmers
Analysts
Internet Consultants**

SAP Labs, Inc. is a point of origin for the most functionally complete business application software on the planet. And we've designed our Palo Alto, CA workplace to be equally remarkable. For the mind, there's a culture replete with original thinkers and serious challenges. For the body, there's an environment that goes way beyond simple comfort—including ergonomic facilities, oak-studded hills and gourmet cuisine. And for the soul, there's the freedom to shape your career in an organization that's flat and adaptive.

No one can dispute the results of this approach. Today, R/3 is the business world's solution for information management. And two of our cutting edge development groups help set the pace. Our Internet Consulting Group helps customers develop Internet and Intranet applications, while our Electronic Commerce Group provides the development tools to create tomorrow's business applications. In these two groups, the challenges are plentiful. But the rewards are enough to soothe mind, body and soul. Discover the difference you can make at SAP Labs.

SAP Labs seeks highly-credentialed individuals (average education level: MS or higher) for all positions, as well as practical R/3 and ABAP backgrounds. Knowledge of a foreign language, especially German, is useful in SAP's diverse culture, but not a requirement. In return, we provide each employee an opportunity to thrive in a motivating, personal, and small-company atmosphere - currently just over 300 employees. We offer an outstanding benefits package, including 3 weeks vacation, flexible hours, free daily lunches, and public transportation subsidization. For details on all positions and on the hottest business application software company in the world, visit our Web site:

www.saplabs.com



To apply for a position at SAP Labs, we prefer that you e-mail your resume in an MS Word or compatible file format to sheila.horgan@hiresystems.com. In your cover letter indicate desired position title, current base salary, and eligibility to work in the U.S. FAX: 781-891-9715. PRINCIPALS ONLY! EOE, M/F/D/V.

A woman with blonde hair, wearing a dark leather jacket over a white turtleneck and tan trousers, stands on a grassy field. She is smiling and looking upwards. Behind her is a large biplane, with its wings and propeller visible. The sky is blue with some clouds.

Ever since Catherine Baker
switched to State Fund, she can take off
for more than just a coffee break.

Total freedom. It's what you feel when you know State Fund is taking care of your workers' compensation insurance. Maybe that's because State Fund has over 80 years experience - that's more than any carrier in California. And with offices statewide, personalized help is never very far away. No wonder we're the choice of over 220,000 employers. For more information, just call your broker or 1-888-STATE FUND.

STATE
COMPENSATION
INSURANCE
FUND



Your customer is at 4 minutes and holding.
Care to wager how much longer she'll be
your customer?

Treat a customer right and you'll keep their business. Those who focus on your customer and your competition will be right there. But, how can you ensure customer loyalty? Call Quintus.

Quintus gives your sales and service people the information they need to keep customers happy with the industry's only end-to-end call center solution. So any customer request,

whether via telephone, fax, e-mail or the Internet can be instantly and accurately handled.

Fifteen of the *Fortune 50* already use Quintus to build customer loyalty and reduce costs. "Customer for life" is not an outdated ideal. You just have to make the right call. 1-800-337-8941. Or visit www.quintus.com.



QUINTUS

Turning contacts into loyal customers.

Is fishing at Waterfall Resort, Alaska Business or Pleasure?

WATERFALL RESORT



Angler: Devin Howe, Waterfall Resort, AK
Guide: Devin Howe
King of Kings Tournament Winner - 65.7 lb. King Salmon



The decision is good for business and a pleasure to make.

Ford Dealers Association of Southern California "For the last 14 years, Waterfall Resort has been our incentive destination of choice. Our benefits include not only improved sales results, but the Waterfall experience itself helps build a camaraderie unlike any other travel destination we have used." - Rich Defrank, Manager

Waugh Family of Las Vegas "Since July of 1985, we have been bringing groups of various sizes to Waterfall Resort. I believe we are somewhat like the salmon. We return because of instinct. Our instincts have been nurtured and rewarded by the wonderful staff of Waterfall and the beauty that is southeast Alaska." - David Waugh

Fax this page to Waterfall (907) 225-8530 and receive our brochure and video.

e-mail: waterfal@alaska.ktn.net
internet: <http://www.waterfallresort.com>



Name _____

Company _____ Title _____

Address _____

City _____ State _____ Zip _____

Area & Phone _____ Fax _____

Interested ☐ Very Interested ☐ Saltwater ☐ Freshwater ☐

Business Entertainment ☐ Pleasure ☐ Number of Guests _____

Best Season 1998 ☐ 1999 ☐ 2000 ☐ May June July Aug. Sept.

Date of Business Week issue _____

INFORMATION / RESERVATIONS 800-544-5125

JAMES C. COOPER & KATHLEEN MADIGAN

IN THE FIRST QUARTER, EL NIÑO RULED

blessed Eastern consumers and builders and cursed the ravaged West

U.S. ECONOMY

What a winter. In some U.S. states, balmy weather enabled consumers to shop with gusto. But in other regions, winds and ice storms caused billions of dollars in damage. The warm weather pushed homebuilding to a 10-year high but caused energy use to take its biggest surge in eight years.

Of course, weather wreaks the most havoc on the economy during the winter. But usually, the effects are as a drag from blizzards and ice. In this year of El Niño, the reverse happened. One of the warmest and driest winters in the East pulled forward activity that would normally happen in the spring at the same time that the fallout from Asia's financial crisis began to slow exports (chart).

So when the Commerce Dept. releases its initial look at the first-quarter gross domestic product on Apr. 30, the report will most likely show that consumer spending set a sizzling pace, followed close behind by residential construction. Businesses invested heavily in machinery, but non-residential building had another weak quarter. And inventory

accumulated at a slower pace than in the fourth quarter. Most important, a steep deterioration in net exports exerted a colossal drag on the economy. Add the sectors together, and real GDP grew at an annual rate of around 3% last quarter. That's down from 3.7% in the fourth quarter, but the pace suggests the economy growing far above its noninflationary speed limit. Moreover, the winter spurt means that the economy now is slowing to a more subdued pace. That's especially likely since consumers will probably take a breather after their winter bonanza and because the impact from Asia is becoming more evident.

FEARED, THE ASIAN CRISIS, along with seasonal-adjustment problems, explains why the first-quarter's trade deficit widened so sharply. In February, the trade deficit for goods and services rose to \$12.1 billion, from \$6 billion in January. Exports fell 0.8% in February, but imports dipped just 0.2%.

Exports to Asia weakened sharply. Goods shipped to the entire Pacific Rim were down 6% in the first two

months of 1998 vs. a year ago. Exports to Japan fell 7.6%, and shipments to Hong Kong, Korea, Singapore, and Taiwan plunged 13.8%.

First-quarter trade data also suffer from seasonal-adjustment problems that tend to cut into export growth. As a result, net exports have widened in every first quarter of the past five years. Depending on what Commerce estimates for the March trade gap, real net exports last quarter could show a deficit as high as \$200 billion, from the \$159.1 billion gap of the fourth quarter. The deficit would far surpass the existing record of \$174 billion set back in 1986.

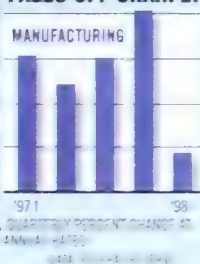
The widening could subtract as much as three percentage points from GDP growth. That's the result of imports satisfying a greater share of surging U.S. demand. In fact, most of the drop in imports in February reflected a drop in prices, especially for oil, not in volume. For instance, the dollar value of petroleum shipments plunged 26.7% in January and February from a year ago. But that was because of the \$7.50 per barrel fall in price. The number of barrels shipped rose 12.3%. After adjusting for prices, total real merchandise imports actually increased 1% in February and were up 18.6% from a year ago.

A LARGE AMOUNT OF THOSE IMPORTS probably ended up in warehouses. The monthly data on business inventories suggest that inventory accumulation last quarter was slower than at the end of 1997, but not by very much. Smaller inventory additions subtract from GDP growth, and last quarter's slowdown was probably intentional. In the fourth quarter, the inventory gain was much faster than the increase in final sales of goods. Slower stockpiling in the first quarter probably brought the two growth rates better in line.

For the second quarter, inventories may well slow further. Goods producers are already adjusting output schedules downward to allow for less Asian demand (chart), so they won't need to add much to inventories.

El Niño and Asia slowed overall industrial production last quarter. Utility output fell 12.2%, which helped to hold total industrial activity flat. Factory production alone fell 0.2% in both February and March. For the

OUTPUT GROWTH FALLS OFF SHARPLY



ASIA'S WOES RAIN ON EXPORTS' PARADE



quarter, factory output grew at an annual rate of 1.8%, one-fourth of its fourth-quarter pace.

A drop in car production accounted for a sizable chunk of the slowdown, but nondurable consumer goods were also weak. So was output of low-tech business machinery, the most likely casualty of Asia. Computer makers remained busy, suggesting that U.S. investment on business equipment rose last quarter.

Looking ahead, though, capital-spending decisions follow sales expectations. And if companies are seeing order cancellations from Asia, investment will slow. But it won't decline. The need to boost productivity will keep U.S. companies buying high-tech machinery.

THE BIG WINNERS among manufacturers last quarter were the makers of home-related items such as furniture, appliances, electronics, and carpeting. Output for those goods grew by 11.7%, from 3.8% in the fourth.

The acceleration reflects the current housing boom. Housing starts slipped 2.8% in March, to an annual rate of 1.59 million, but that followed a jump of 5.8% in February. For the quarter, builders started construction on nearly 1.6 million homes, the best quarter in more than a decade (chart). The increase can be credited mostly to El Niño. Starts grew strongest in the Northeast and Midwest; they fell in the West.

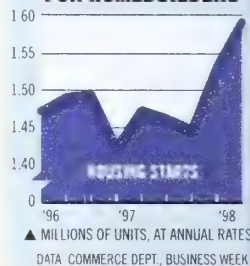
With so many new homes already begun, starts will fall back in coming months. However, mortgage rates

remain low, and consumer fundamentals are strong, so the slowdown will not be large. The latest survey of homebuilders shows that they remain very optimistic. In April, the usual start of the spring building season.

Solid consumer fundamentals also propelled the 6% or so surge in real consumer spending, the biggest piece of the first-quarter puzzle. But again, the weather was a key factor as usually home-bound consumers went out and shopped. Households are unlikely to increase their spending at such a furious pace this quarter. But they're not retrenching, either. Weekly retail reports show that store sales in the first two weeks of April did well, helped by a late Easter.

More of those Easter bonnets, though, are being made overseas. It's another sign that—no matter how the Pacific jet streams are blowing—foreign trade is becoming a larger player in the U.S. economy. And the effects are both good and bad. Over the past two years, falling import prices have enabled this expansion to continue without any signs of harmful inflation. Nonetheless, the U.S. is beginning to feel the bad, as few exports to Asia start to exert a drag on production.

A BANNER QUARTER FOR HOMEBUILDERS



RUSSIA

UNDETERRED BY A TRADE-GAP DRAG

First, the bad news. After running trade surpluses since the breakup of the Soviet Union, Russia is likely to post its first current-account deficit in 1998. Plunging prices of its key exports—oil, gas, and metals—could shrink export revenues by over 10%, while imports are set to grow by 3%.

But don't draw any hasty parallels with Asian and Latin American countries where large current-account deficits contributed to recent economic meltdowns. Russia's gap will likely total less than 1% of gross domestic product and should not be hard to finance (chart). Indeed, even after last fall's market crash, the flow of for-

eign capital into Russia is increasing. What's more, rising imports are a signal that domestic demand is recovering. Real GDP is expected to grow by 1% to 2% in 1998.

The trick is not only to attract more foreign cash but also to ensure that it funds productive projects rather than real estate speculation or other hot-money deals, as happened in Thailand and Korea. Russia looks to be on the right track. Foreign direct investment, which usually

goes into long-term projects, is expected to rise from \$6 billion in 1997 to \$7 billion this year.

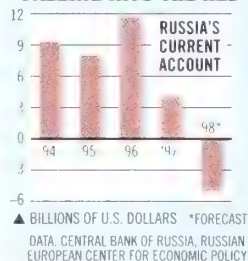
In addition, capital flight is reversing as wealthy Russians who once stashed their money offshore

are now investing more of it at home. And the government is putting its notoriously messy fiscal house in better order, with revenue collections in the first quarter meeting the Finance Ministry's expenditure targets.

Even so, Russia, with a population of 150 million, attracts only slightly more foreign investment than much-smaller post-communist economies such as Hungary and Poland. That's partly because Russia has been reluctant to let foreigners take major roles in privatized companies and in banking. An oppressive tax regime, corruption, and political uncertainty also drive away investors. But despite these obstacles, Russia's investment climate looks attractive enough to offset the drag from this year's current-account deficit.

By Carol Matlack in Moscow

THE TRADE BALANCE IS FALLING INTO THE RED



The Power to Manage. Anything. Anywhere.

Tivoli



Tivoli is a registered trademark and The Power to Manage. Anything. Anywhere is a service mark of Tivoli Systems Inc. in the United States and/or other countries. In Denmark, Tivoli is a trademark licensed from Kiepenhaver Sommer - Tivoli A/S. IBM is a trademark of International Business Machines Corporation in the United States and/or other countries. © 1998 Tivoli Systems Inc. All rights reserved.



The power

- To easily manage your systems, networks and applications from a central point.
- To roll out hot new applications to thousands of users, all at the same time.
- To create a customized solution using best-of-class products from hundreds of partners.
- To protect your information systems and investments, now and down the road.

All through one incredibly open and scalable technology. Supported, worldwide, by IBM. That's the power of Tivoli Systems Inc. Visit us at www.tivoli.com or call 1 888 TIVOLI1.

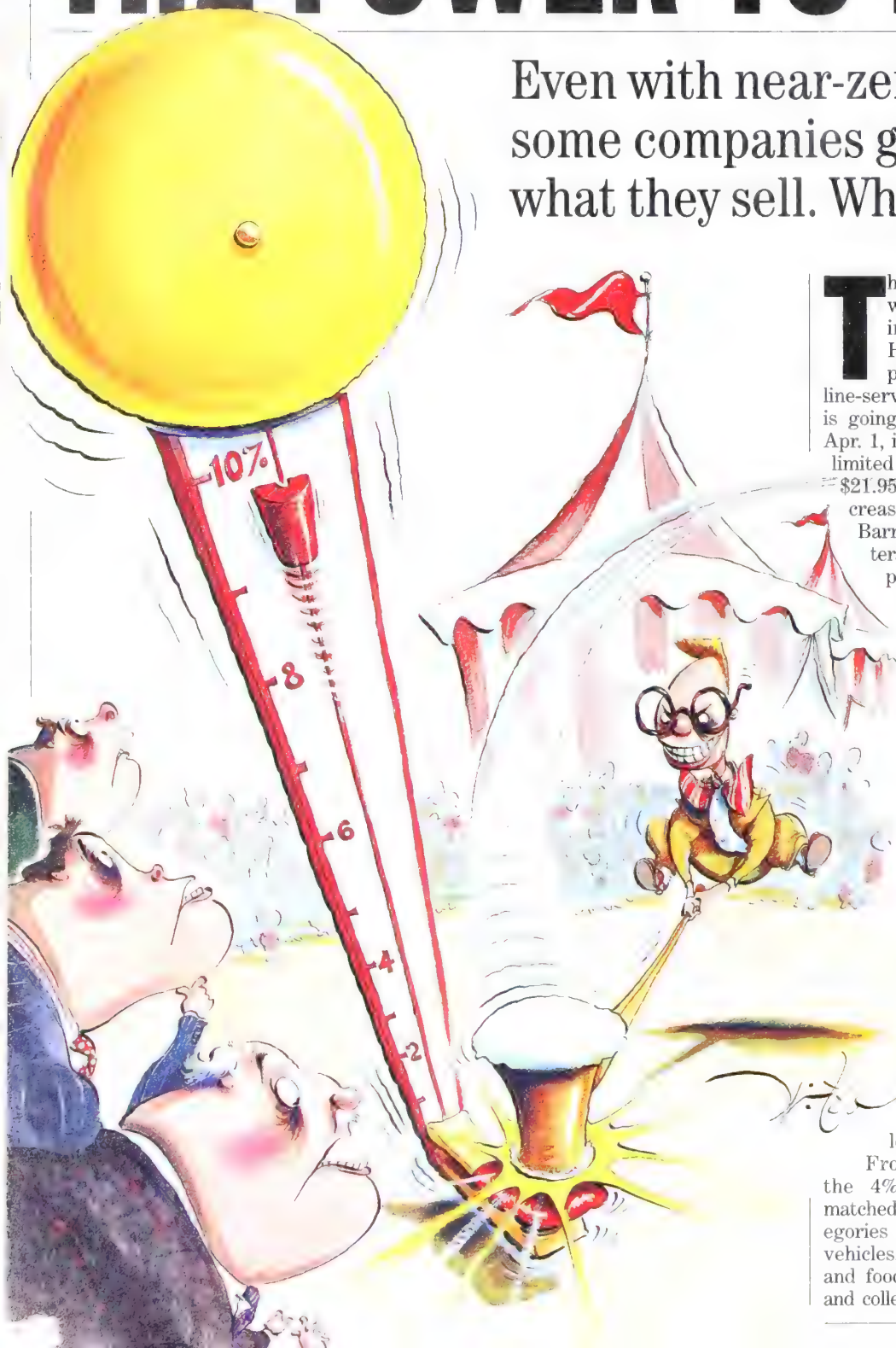
THE POWER TO RAISE

Even with near-zero inflation, some companies get more for what they sell. Why that's good

The contrast is striking. The folks who make personal computers—including Compaq, IBM, and Hewlett-Packard—are slashing prices to move inventory. Yet online-service giant America Online Inc. is going in the opposite direction. On Apr. 1, it raised its monthly fee for unlimited usage by 10%, from \$19.95 to \$21.95. And there's no sign of increased account cancellations, says Barry Schuler, president of AOL Interactive Services. "Nobody loves a price increase," says Schuler. "But from our perspective, it has gone over well."

Assuming that the rate of price increase sticks, AOL will join a select group—the pricing power elite. Although core inflation is running at a meager 2.1%, some industries—including airlines, mutual-fund houses, sellers of mainframe software, and entertainment companies—are able to boost prices far faster. Their secret: products that customers want and are not easily matched by competitors. In contrast, companies outside the elite are forced to survive on stagnant or falling prices.

This tremendous divergence in pricing power is a new thing. In the 1980s, prices marched upward in lockstep across the economy. From 1985 to 1990, for example, the 4% overall inflation rate was matched by similar hikes in diverse categories such as haircuts, air fares, new vehicles, entertainment, rent, clothing, and food. Only a few, like health care and college tuition, could beat this new



PRICES

Today, prices are far more sensitive to supply and demand in individual markets. Federal Reserve Board Chairman Alan Greenspan and other economists have long hailed this change as a key effect of low inflation. When the overall inflation rate is high, price hikes usually reflect economy-wide trends. But in low inflation, price changes contain more information about market conditions in specific industries. The economy benefits since investment flows into high-price industries where demand exceeds supply.

LOCKED IN. Eventually, companies with pricing power see their margins wiped out or substantially reduced as competition increases. But when that happens, the pricing power elite can enjoy the benefits.

Consider transportation. In the past, the price of flying rose only faster than the cost of a new engine vehicle. Now, the airlines are showing major pricing power. Typical domestic business fares rose 9% in February from the previous year, reports American Express Travel Related Services Co., as carriers benefited from rising demand, little capacity growth, and a lack of low-fare competition. According to the Bureau of Labor Statistics, ticket prices edged up at a 37% annual rate in the quarter.

Meanwhile, thanks to inexpensive imports and overcapacity, U.S. car makers are being forced to offer low price cuts in the form of cash rebates and cut-rate financing on most models. At General Motors, for example, incentive costs rose an average of \$1,305 per vehicle in the first quarter, up 52% from a year earlier.

This difference in pricing clout shows up within the software business as well. As for many PC applications are going sharply. Average retail prices for games, for example, are down 12% in the first two months of 1998 compared a year earlier, according to market researcher PC Data. Prices for business-education software are off 17%.

At least one PC software company

has enough pricing power to hold the line in computer stores. Microsoft Corp. announced on Apr. 20 that it will price Windows 98 upgrades at \$109—the same suggested retail price as Windows 95—even though the price of a home PC has fallen by a third in the past two years. PC makers ask for price cuts all the time, observes Microsoft Chief Financial Officer Gregory B. Maffei. But

Sobotka concedes, software makers “have us locked in.”

In financial services, too, some companies have the power, while others don't. For example, more and more people looked for help this year to cope with the spiraling complexity of tax forms. This greater demand enabled H&R Block Inc. to increase its average charge for doing a return by 8%. And the explosive growth of sector and international funds—which tend to charge higher fees—helped push up typical mutual-fund fees by 5.4% in 1997, based on data from Lipper Analytical Services Inc.

Surprisingly, banks don't seem to have the same clout. True, automated teller machine fees have gone up. But according to new government figures, checking-account fees rose at only a 1.6% annual rate in the first quarter. The recent merger wave, however, might help banks regain pricing leverage.

Of course, the market for some services is so hot that the sky's the limit. Take computer services. Nieto Computer Services, a three-year-old Houston computer- and network-services company, has raised service fees two years in a row without a whimper from customers. “We raised hourly rates and lost one or two clients out of 130,” says co-founder Scott Mt. Joy. When the company started in 1995, it charged \$35 to \$50 an hour for contract work. Today, rates are \$75 to \$150. The increase, Mt. Joy says, reflects the scarcity of experienced

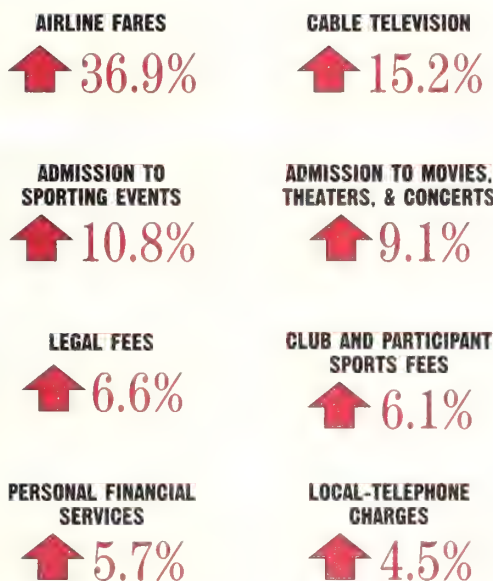
programmers and sky-high demand.

CROWDED CINEMAS. With disposable income surging, entertainment businesses, too, are able to charge more without cutting into demand. Ticket prices for sporting events are up sharply, for example. And despite movie-ticket price hikes averaging 7.8% last year, filmgoers still crowded into the cineplexes.

The latest example of entertainment pricing power: In early April, Walt Disney Co. announced an estimated 6% increase in ticket prices at Walt Disney World in Orlando. The hike also comes just in time for the opening of the com-

THE HEAVY HITTERS

Change in prices over last three months, at annual rates



DATA: BUREAU OF LABOR STATISTICS

Microsoft isn't planning on offering any discounts.

At the same time, the price of main-frame software continues to soar. Software makers charge higher prices when users upgrade to more powerful computers—even though the software stays the same. At U.S. Bancorp, the license for one CompuWare Corp. package jumped from \$1 million to \$4.5 million when the company upgraded its mainframe. “We're not getting greater business value out of the software,” says Mark Sobotka, vice-president for technical services. But, in a lot of cases,

pany's much-ballyhooed \$800 million Animal Kingdom theme park. Nearby Universal Studios Inc. and Sea World of Florida are matching Disney. "Obviously, if someone else raises prices... then that gives you a window," admits Victor G. Abbey, executive vice-president and general manager of Sea World. But Abbey notes that visitors will get more for their money: Park owner Busch En-

tertainment Corp. has more than doubled Sea World's size.

Finally, there's the housing market. Nationally, sales prices for existing homes are up 5.2% over the past year—a number that conceals sizable city-to-city disparities. In some areas, such as Miami and Albany, N.Y., prices are stagnant or falling. But in Boston, home prices are up 10.6%.

So, if you experience sticker shock at the baseball stadium or when you hear what that cunning cottage costs, remember that you're rubbing elbows with members of the power pricing elite. Just hope that they continue to be a rare breed in this low-inflation world.

By Michael J. Mandel in New York with bureau reports

ALAN GREENSPAN MEETS GRANNY SMITH

For years, economists at the Labor Dept.'s Bureau of Labor Statistics resisted calls to revise the way it compiles the consumer price index so as to better reflect changing pricing and purchasing trends in the economy. But now, the BLS has gotten with the program—big time. Starting with small adjustments in 1995, the BLS has taken bolder and bolder steps to remake their models for today's reality. As a result of their new math, growth in the CPI is now running at 1.4%—a half-point below where it would have come in under its previous methodology.

Bigger changes are coming. Since February, the government has revised scores of product categories to reduce the weight given to products that are used less, such as alcohol and tobacco, and emphasize high-tech gadgets—such as cellular phones and computers—whose prices have been plummeting. Those changes alone are expected to shave two-tenths of a percentage point from the annual growth rate of the price index.

A BIGGER SURPLUS. On Apr. 16, the agency disclosed that other revisions due to take effect next January will likely clip another two-tenths of a point off the index. These changes will reflect the fact that consumers seek substitutes for goods that jump in price: If the price of Granny Smith apples goes up, consumers switch to less-expensive McIntoshes—and the CPI rises by less.

The revisions in the CPI that have already been made, taken with those coming next year, will have a significant effect on the economy. That could range from spurring faster growth to holding down pay hikes to shrinking the federal budget. Overall, the index will be roughly seven-tenths of a percentage point below what it would have been under the old system, which Federal Reserve Chairman Alan Greenspan and most other econ-

The revised CPI
will better
reflect
purchasing
trends—and
influence
economic policy

omists claimed overstated inflation. And the BLS is changing its data gathering in ways that should enable it to toss new goods into its basket more quickly. "These aren't the last improvements we're going to make," says BLS economist Richard Bahr.

Already, the changes are reverberating through the economy. Some economists say the restated CPI will intensify pressure on companies to improve productivity rather than raise prices—with a net effect of boosting growth by a tenth of a percentage point.

Social Security recipients and federal retirees are getting smaller cost-of-living adjustments. The BLS revisions are also affecting the three million private-sector workers with union contracts tied to the CPI—and

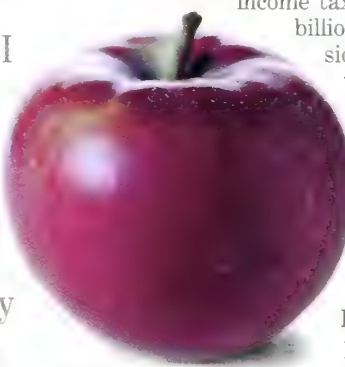
are likely influencing how much other employers pay as well. According to the Congressional Budget Office, the lower CPI should increase the anticipated federal surplus next year by between \$4 billion and \$5 billion.

Over time, the fiscal benefits become even more dramatic: By 2004, the BLS moves could be worth \$51 billion to the government. It would get \$15 billion from the slower increases in the standard deduction on income taxes and save \$10 billion in federal pension payouts and in the earned income credit—all thanks to lower CPI growth. Federal outlays for Social Security would drop by \$26 billion a year. Indeed, some experts believe that the reduced cost-of-living adjustments

in Social Security could eliminate half the program's long-term funding problems.

For the Fed, the CPI revisions make a rate hike less likely. The Fed has been eyeing tight labor markets for months—ready to pounce at any sign that rising wages are reigniting inflation. But with the new CPI, the Fed may find it politically more difficult to make a move. "How can the Fed justify raising rates when the year-over-year inflation rate is so low?" asks Robert Brusca, chief economist at Nikko Securities International Inc. Indeed, if the new CPI captures the true inflation rate—as Greenspan said it would—he can't complain if it keeps the Fed from fighting a phantom.

By Dean Foust in Washington



By Peter Coy

MERGERS: CRACK DOWN ON STUPID ACCOUNTING TRICKS

An old *Far Side* cartoon showed a mathematician at a chalkboard trying to explain away a gap in a complicated proof. "Then," he says, "a miracle happens." The picture isn't much different in Corporate America—as CEOs try to justify the sky-high sums they pay for acquisitions. Only they don't call it a miracle: They call it accounting.

Depending on the accounting method, similar deals can have wildly different effects on reported earnings. And these days, more and more acquisitions are being done in ways that protect earnings but that also provide minimal disclosure to investors, who management hopes will let greed be their guide.

Why does this matter? Because the merger boom of the 1990s has helped push price-earnings ratios to new highs. If the accounting has papered over misvaluations and if mergers don't pay off, the market could be in for a huge correction.

To reverse this trend toward blurry bottom lines, the first thing that needs repair is goodwill—which is to accounting what "dark matter" is to cosmologists: massive and invisible. Goodwill (table) is a residue—the difference between the fair value of a company's net assets and the price of acquiring the company. Think of it as the value of unmeasurable things such as customer loyalty.

NOTTY. Buyers hate goodwill because they must amortize it over 40 years at most. And even though it's a noncash charge that doesn't affect cash flow, it does cut reported earnings per share. "We focus on reported earnings per share because that's what the investment community focuses on," says William P. Boardman, senior executive vice-president at Banc One Corp. in Columbus, Ohio.

That's why Banc One is combining



with First Chicago NBD Corp. in a \$30 billion deal that won't place a penny of goodwill on the books. Instead, it will be a pooling of interests: an immaculate conception in which no goodwill is created—because neither company is treated as acquirer. The balance sheets of the two equals are simply merged.

But while pooling helps avoid goodwill charges, it's not usually in the interest of investors. First, pooling spoils the comparison of earnings between companies formed by pooling and other merger-formed companies. Second, merger-minded companies often twist themselves into knots to qualify for pooling as ostensible equals. For instance, they will abstain from stock buybacks before and im-

mediately after acquisitions, because such transactions would preclude poolings. Finally, pooling also perpetuates fictions—such as recording assets at unrealistic historical costs—that would be set right in conventional purchase accounting.

The Financial Accounting Standards Board (FASB) is considering a limit on eligibility for poolings, which, says Securities Data Co., have accounted for half of the billion-dollar-plus deals announced this year. Poolings might be restricted to mergers in which it is truly impossible to identify an acquirer—say, because each company's shareholders will own half of the merged company. Banc One would fail such a pooling test: Its shareholders will own 60% of the combined company.

The FASB would push companies to use old-fashioned purchase accounting, in which they must calculate the fair value of each of the target's assets. That wouldn't stop the merger boom, but it might at least discourage companies from overpaying. Even here, however, there are problems. It's still too easy for acquirers to use the goodwill line on the balance sheet as a dumping ground for various intangible things—patents, trademarks, customer lists—that should be regarded as assets.

If the FASB takes away some of the ability to pool, it should also make purchase accounting less onerous by allowing companies to declare some goodwill to be of permanent value and therefore not to be amortized unless circumstances change. Whatever FASB decides—and its proposal won't be issued until next year—the goal should be more disclosure for investors and less opportunity for miracle-seeking, merger-happy CEOs.

Coy is associate economics editor.

WHEN THE PLUG IS PULLED ON 'POOLING'

Walt Disney's net earnings have suffered because it was not able to merge balance sheets in a "pooling" after its purchase of Capital Cities/ABC.

PURCHASE ACCOUNTING

► Disney's purchase cost	\$18.9 BILLION
► Fair value of Capital Cities/ABC's net assets*	-\$0.3 BILLION
► Goodwill created	\$19.2 BILLION
► Annual hit to Disney's earnings from amortizing goodwill	\$480 MILLION

*As adjusted by Disney

POOLING ACCOUNTING (If deal had qualified)

► Value of Cap Cities/ABC	\$18.9 BILLION
► Book value of Capital Cities/ABC's net assets	-\$0.3 BILLION
► Goodwill created	0**
► Annual hit to Disney's earnings	0

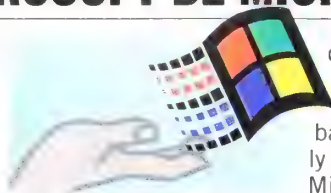
**No goodwill would be created because in a merger of equals, Disney would not be seen as the acquirer

DATA: BUSINESS WEEK, WALT DISNEY CO.

BUSINESS WEEK/HARRIS ONLINE POLL

LET MICROSOFT BE MICROSOFT

On Apr. 21, the Justice Dept. confronted Microsoft Corp. in a federal appeals court in the latest effort to curb the company's allegedly predatory practices. But according to a new Harris Poll—and an unscientific BUSINESS WEEK survey of readers—citizens believe the agency should beat a retreat. Two-thirds of the readers who responded after seeing our



cover story ("What to do about Microsoft," Apr. 20) and 53% of those polled online by Harris say the government should back off. "Justice should apologize profusely to Microsoft and to the voters for wasting Microsoft's and the taxpayers' money," wrote

Dick Mallion of Whitefield, N. H. Fewer than a quarter of respondents favor some sort of regulation.

FIGHTING FAIR?

In general, how would you characterize Microsoft's competitive practices?

Very fair	18%
Somewhat fair.....	33%
Somewhat unfair.....	30%
Very unfair	14%
Don't know	5%

FEELING MICROSOFT'S MUSCLE

Do you think that Microsoft has too much, about the right amount, or not enough economic power?

Too much.....	49%
About the right amount	45%
Not enough.....	1%
Don't know	5%

WHOA, TRUSTBUSTERS

What, if anything, should the Justice Dept. do to address Microsoft's dominant position in the computer software industry?

	READERS SURVEY	HARRIS POLL
Do nothing.....	67%	53%
Regulate Microsoft	22%	23%
Break Microsoft up into two separate companies.....	11%	9%
Don't know.....	0%	15%

HOW TO CUFF 'EM

If you think Justice should regulate Microsoft, which of these approaches should it pursue? (multiple responses allowed)

	READERS SURVEY	HARRIS POLL
Limit Microsoft's ability to prevent business partners from selling or promoting rivals' products.....	83%	64%
Bar Microsoft from giving its products and services favored locations within Windows.....	55%	39%
Force Microsoft to market its operating system, browser, and related products separately	48%	48%
Make sure that Microsoft's operating system will work with any independent software	41%	74%

NO SECOND THOUGHTS

As a result of the Justice Dept.'s inquiry, has your opinion of Microsoft changed?

Much more favorable.....	5%
Somewhat more favorable.....	7%
No change	66%
Somewhat less favorable.....	16%
Much less favorable	4%
Don't know	2%

SHOPPING THE SAME WAY

As a result of the Justice Dept.'s inquiry, do you think you are more likely or less likely to buy Microsoft products in the future?

Much more likely	8%
Somewhat more likely ...	5%
About as likely.....	73%
Somewhat less likely ...	10%
Much less likely	3%
Don't know	1%

THE LONG ARM OF BILL GATES

Do you presently use any Microsoft software?

Yes.....	96%
No	3%
Don't know	1%

POLISHED WINDOWS

If you use Microsoft's software, how would you rate it in terms of usefulness, ease of use, and reliability?

	EXCELLENT	GOOD	FAIR	POOR
Usefulness.....	52%	42%	6%	0%
Ease of use	37%	44%	17%	2%
Reliability.....	36%	40%	19%	5%

BROWSER NOT OPTIONAL

How important to you is it that a personal computer's operating system incorporate an Internet browser?

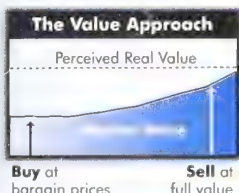
Very important.....	29%
Somewhat important ...	22%
Not very important.....	22%
Not important at all.....	26%
Don't know.....	1%

EDITED BY KEITH H. HAMMONDS

Survey of 2,587 adults conducted Apr. 17-20, 1998, for BUSINESS WEEK by Louis Harris & Associates Inc. Computer users were invited via E-mail to participate in the poll at a Web site; that sample was reweighted to reflect national demographics. BUSINESS WEEK's own poll of readers, conducted Apr. 10-20, 1998, attracted 5,072 respondents—3,835 online, 681 by E-mail, and 556 by fax.

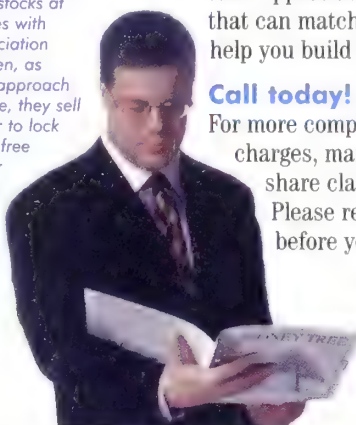
Prudential's Search for Undervalued Stocks Has Led to Better Mutual Fund Performance

Value Investing: A Bargain Hunter's Approach to Equities



If you're investing in equities, conventional logic says to buy stocks of popular, fast-growing companies. Value investors see things differently.

Through complex analysis, value investors attempt to uncover hidden gems—less popular stocks at bargain prices with strong appreciation potential. Then, as these stocks approach their full value, they sell them in order to lock in gains and free up capital for reinvestment.



Get an edge with Prudential's proven value expertise...

At Prudential, we use intensive bottom-up analysis and carefully managed risk to identify and buy undervalued stocks. Then we take a disciplined approach to selling as they reach full value.

...and find the performance you're looking for. Historically, Prudential's value investing approach has earned high ratings from *Morningstar* by delivering consistent long-term results without taking on undue risk. Of course, past performance does not guarantee future results.

Smart options to help you diversify. Small-cap or large-cap. Current income or long-term appreciation. Prudential has a value fund that can match your investment objectives and help you build a well-rounded portfolio.

Call today!

For more complete information on sales charges, management fees, expenses and share classes, ask for a prospectus. Please read the prospectus carefully before you invest or send money.

SMALL COMPANIES



Prudential Small Company Value Fund (CLASS B)

MID-SIZED COMPANIES



Prudential Equity Income Fund (CLASS A)

LARGE COMPANIES



Prudential Equity Fund (CLASS A)

Overall Morningstar Ratings as of 2/28/98
Among 2,383 Funds in the Domestic Equity Category

Call 1-800-THE-ROCK
extension 3103
www.prudential.com



Prudential
Investments

Not all Prudential funds were rated as high as those shown. Share prices and returns will vary, and you may have a gain or loss when you sell shares. Different classes of shares are offered. Ratings cited are only for share classes shown, and other share classes may have a lower rating. Shares have a common portfolio, but loads and fees vary by class, which may affect performance. Funds may invest in foreign securities which are subject to special risks including currency fluctuation and the impact of social, political and economic change. Investing in small companies also involves additional risk. These risks may result in greater share price volatility.

All Morningstar periods ended 2/28/98, and ratings are subject to change every month. Morningstar proprietary ratings reflect risk-adjusted performance, are historical and do not represent future performance. Morningstar ratings are calculated from the funds' 3-, 5-, and 10-year returns (with fee adjustments) in excess of 90-day Treasury bill returns, and a risk factor that reflects fund performance below 90-day T-bill returns. 10% of the funds in a category receive 5 stars, the next 22.5% receive 4 stars, and the next 35% receive 3 stars. Prudential Equity Fund (Class A) and Prudential Equity Income Fund (Class A) received 3 stars (among 2,383 funds) for the 3-year period and 4 stars (among 1,344 funds) for the 5-year period. Prudential Small Company Value Fund (Class B) received 4 stars (among 2,383 funds) for the 3-year period, 3 stars (among 1,344 funds) for the 5-year period and 4 stars (among 1,344 funds) for the 10-year period. Shares of the Funds are offered through Prudential Securities Incorporated, 199 Water Street, New York, NY 10292 (member SIPC), and Pruco Securities Corporation, 213 Washington Street, New York, NY 10292, both subsidiaries of The Prudential Insurance Company of America.

BANKING

LITTLE BANKS ARE SPROUTING IN THE SHADOW OF GIANTS

There's a huge crop of new banks catering to the disenchanted

Randy S. Plumlee was already fed up with his bank before it was acquired by an out-of-state institution. Even though the Plano (Tex.) businessman had a longtime friendship with a banker at Dallas-based Fidelity Bank, routine decisions were taking weeks or months. So when Fidelity was sold, Plumlee jumped ship to Resource Bank, an upstart in Dallas that opened in October. "I need somebody who knows me, knows how I operate a business, and can make decisions," says Plumlee. Just one day after he joined Resource, in April, he got a \$25,000 loan for a new Ford truck for his commercial concrete and landscaping company. The bank's total decision-making time: 30 minutes. "We're off to a good start," says Plumlee.

As consolidation sweeps the banking industry, creating such behemoths as the proposed NationsBank-BankAmerica combo, thousands of customers like Plumlee are heading straight out the branch doors. Those customers and a thriving economy are spawning the biggest crop of bank startups in a decade. Federal Reserve Bank of Dallas researchers say that 182 new banks opened nationwide last year, not counting those buying existing banks. That's up 30% from 1996 and the most since 1988. The trend is national, but Georgia, California, Florida, and Texas—where the population is growing and bank competition is dwindling—are seeing the most action.

"FOR THE LONG HAUL." The shrinking of the industry itself—from nearly 12,500 banking companies in 1979 to 7,200 today—is actually fueling the boom. Bankers who have sold banks or lost jobs in mergers are striking out on their own. Backed by readily available capital,



JUMPING SHIP
"I need somebody who knows me, knows how I operate a business," says Texan Plumlee

they're nabbing customers they say the big guys overlook: small-business owners, consumers over 50, and wealthy individuals who want pampering. "The giants do 80% of their business with 20% of their customers," says William F. Sinclair, president of the new \$20 million Bank of Lakewood (Calif.), near Long Beach. Sinclair is narrowly targeting potential customers, faxing weekly promotions to some 355 small-to-midsize businesses within five miles of the bank and targeting direct mail at affluent households in the area.

Compared with the last wave of bank startups in the 1980s, this crop, say bankers and consultants, is better capitalized, better scrutinized by regulators, and less likely to be looking for a quick

payoff. Senior economist Robert F. Moore and analyst Edward C. Skelton at the Dallas Fed found that the average new bank in 1997 had \$65 million in assets by the end of the startup year and nearly \$15 million in equity. That compares with \$21 million in assets and \$4 million in equity, adjusted for inflation, for the banks that were started in 1984. "These are banks that are in

for the long haul," says Chicago attorney Dennis E. Wendte, who advises new banks.

Peachtree Bank in Duluth, Ga., is typical. Opening in September, the bank is located in the fastest growing county in the country. President Monty Watson, a veteran banker, raised Peachtree's capital of \$8 million in 82 days. "It was the most fun I've ever had," says Watson.

MORE POLARIZED. In the Midwest, David Keller, former executive vice-president at Comerica Inc., opened Builders Bank in downtown Chicago last October with \$5 million in capital. With \$25 million in deposits now, the bank is six months ahead of projections, says Keller. "My customers don't care if they can't use an ATM in Albuquerque,"

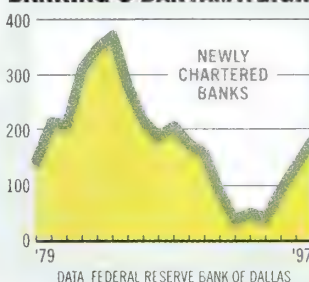
says. "They want to know, 'Can I get a loan to run my business? Will I talk to the same person twice?'"

Many banking experts predict an increasingly polarized industry, dominated by a few giants on one end and thousands of tiny banks at the other. Even with banks in general thriving now, bigger players say they aren't worried about upstarts. The market for small-business lending is growing faster than the number of new banks coming to market, says Marilyn Dahl, a Norway

Bank vice-president. New banks "are doing well. So are we," she says. And as big banks get bigger, the newcomers should have even more room for growth.

By Wendy Zellner in Dallas, with Therese Palmer in Chicago, David G. in Atlanta, and Andrew Osterland in Chicago

A COMEBACK FOR BANKING'S BANTAMWEIGHTS



THEY EACH HAVE THEIR OWN ZIP DISK.
THEY DON'T LIKE TO SHARE.



Multiple
100MB
Zip disks
for 25
or 45
2.95*



Whether you're keeping the kids from fighting over each other's stuff, or just keeping them out of yours, Zip® disks make a lot of sense. With the capacity of 70 floppies, a genuine 100MB Zip disk gives each member of the family the space they need. And with over 10 million out there, you'll find Zip drives just about everywhere you go. Home. Work. School. In fact, most leading PC companies now offer ZIP BUILT-IN™ drives. Of course if you already have a computer, you can always buy an external Zip drive. So give each member of your family their own Zip disk. It's the next best thing to their own PC. Get your Zip drive and Zip disks wherever you get your computer products. Or check us out on the Web at: www.iomega.com/zip

Use only genuine Zip disks featuring
this symbol  in your Zip drive.

BECAUSE IT'S YOUR STUFF.



COMMENTARY

By Catherine Yang

THE HIDDEN TAX IN YOUR PHONE BILL

On Apr. 14, MCI Communications Corp. petitioned the Federal Communications Commission to lower so-called access fees—the rates that long-distance carriers pay to local phone companies to pick up and complete their calls. MCI's argument: Local providers are making a killing off these charges.

Sure, MCI and other long-distance carriers have been lobbying for such a reduction for years. And their pleas are self-serving: They want to cut off what has become a windfall for local phone companies, their soon-to-be competitors.

On the other hand, they're right, and now is the time to address the issue. By all ac-

counts—including that of the local phone companies—FCC-regulated access fees substantially exceed the costs they were designed to cover. At a time when the government is trying to deregulate the telecommunications industry, such out-of-whack charges tend to create craters in what needs to be a level playing field.

counts—including that of the local phone companies—FCC-regulated access fees substantially exceed the costs they were designed to cover. At a time when the government is trying to deregulate the telecommunications industry, such out-of-whack charges tend to create craters in what needs to be a level playing field.

"A SLUSH FUND." How did this happen? Ever since the breakup of the Bell system, Baby Bells and other local service providers have collected the access fees from long-distance carriers. In turn, long-distance providers have passed the expense on to consumers through higher per-minute rates. The idea was to compensate local phone companies for the cost of using their networks to handle long-distance traffic.

But the FCC and local providers also figured that these fees could help fund "universal service," a decades-old

policy of setting basic phone rates low enough so that almost all Americans—even those in rural areas that are costly to wire—could have a phone. Thanks to universal service, some poor city dwellers can get phones, and folks in interior Alaska pay about what other Americans do, even though the Bells claim the true cost of basic service there runs \$137 a month. Access charges, the covert

taxes that make this possible, now add up to about \$20 billion a year.

AT&T and other long-distance providers, which have the unenviable task of collecting these fees, claim customers are being rooked. The fees are inflated by as much as \$10 billion, or 50% more than the actual costs, they estimate. "Access charges are a slush fund for the Bells," says J. Richard Devlin, Sprint Corp.'s general counsel. Local phone companies object to that characterization, but concede that the sum is probably 20% to 25% above costs.

Here's a better idea. If politicians want to collect money from consumers for universal service, let it appear on the bill as a federal tax—a more honest way to fund the subsidy. Or let

the government collect the money directly.

Both the FCC and Congress long ago acknowledged that a more up-front policy would be best. And to its credit, the FCC has moved in the right direction. Last July, it chopped access fees by about \$1.7 billion, and it expects to trim them by \$600 million more this July. Meanwhile, the agency has allowed long-distance phone companies to break out a portion that appears on customers' bills as flat-rate "subscriber fees," so at least people know a little more about where their money is going. In July, long-distance carriers also began to charge business customers a 4.9% tax on calls to pay for discounted Inter-

net service for schools and libraries under a new universal service program. This charge is also broken out.

But the politics are perilous. Rural representatives

have fought long and hard—and successfully—to keep the subsidy system. And they are afraid that a more overt subsidy would shock customers in, say, New York City, most of whom have no idea that they help shoulder the costs of service in Montana. And if the FCC slashes access fees before figuring out how to fund universal service, the Bells argue, local rates for millions of subsidized customers will jump. Then "consumers will complain that the only thing to come out of the Telecom Act is higher rates," says Robert T. Blau, BellSouth Corp.'s vice-president for regulatory affairs.

No doubt, that's a risk. But if the government owns up to its tax, then perhaps telecom providers will also have to be more honest about their actual costs and charges. That would be an important step toward fulfilling the promise of the Telecommunications Act of 1996: true competition and lower rates.

Yang follows telecommunication in Washington

1. CONSUMERS

Consumers pay long-distance carriers through higher per-minute long-distance phone rates.

5. PROFIT

A portion goes directly to the local phone companies' bottom lines as operating income.

4. UNIVERSAL SERVICE

A portion of access fees is used to subsidize rural and low-income customers.

AROUND AND AROUND THEY GO...

DATA: BUSINESS WEEK

3. LOCAL

Local phone companies use the access fees to cover the cost of picking up and terminating long-distance calls. The remainder goes to:

2. LONG DISTANCE

Long-distance carriers pay access fees to Bells and other local phone companies.

HONEY, GO BOOT UP THE PHOTO ALBUM.



Ready for a photo album without all the loose pictures, bent corners, and sticky plastic pages? Then it's time to go digital. With the capacity of 70 floppies, a genuine 100MB Zip® disk can hold dozens of digital photos in perfectly organized files. So you can preview, print, or digitally retouch to your heart's delight. And with over 10 million out there, you'll find Zip drives just about everywhere you go. In fact, most leading PC companies now offer ZIP BUILT-IN™ drives. Of course if you already have a computer, you can always buy an external Zip drive. Then keep all your photos on a neat little Zip disk. And give those musty old books the boot. Get your Zip drive and Zip disks wherever you get computer products. Or check us out on the Web at: www.iomega.com/zip

Use only genuine Zip disks featuring this symbol  in your Zip drive.

BECAUSE IT'S YOUR STUFF.



drive. The Capacity To Do More.
for \$149.95 and 100MB disks
for as low as \$12.95.*

IMMIGRATION

CANADIANS FEEL A FROST AT THE BORDER

Why entering the U.S. is becoming a white-knuckle experience

When Neil G. Shearer, a painting contractor and yacht pilot, tried to cross the Canadian border into Washington last August, he figured it would be like dozens of other crossings he has made. How wrong he was. He was detained for 2½ hours in a windowless room, had his car seized and then was banned from entering the U.S. for five years. His offense: trying to cross at another location after an inspector had turned him away for insufficient proof that he lived in Vancouver. "My persistence was stupid," says Shearer, 31. But he adds his real problem was "being stopped by some officious person in a bad mood."

Shearer, like at least 359 Canadians hit with five-year bars in the past year, ran afoul of a new immigration law that is a *bête noire* north of the border. At least 18,000 would-be entrants to the U.S. from Canada have been turned away by gun-toting immigration officials since April 1997, when the law took effect. "The legislation has allowed an immigration officer to become the judge, jury, court reporter, and ultimately executioner," says Toronto immigration lawyer Heather N. Segal.

American immigration authorities, while defending the law, are trying to deal with the Canadian objections. Ambassador Gordon D. Giffin pleaded in March to Canadian Foreign Minister Lloyd Axworthy to not let a "few misunderstandings" impede relations. And on Apr. 22, Immigration & Naturalization Service officials told lawyers and reporters in a coast-to-coast videoconference that they are training their inspectors to treat visitors more professionally.

Critics say the problem is the Illegal Immigration Reform & Immigrant Responsibility Act itself. Aimed at Mexicans who might try to turn a tourist trip to the U.S. into permanent residency, it applies equally to the Canadian border, where illegal immigration is far less common. And Canadians claim the measure

has turned border crossings into white-knuckle experiences.

INS officials say only 7% of those who could be barred have been. Still, the penalties often seem severe. Steven Williamson had invested \$210,000 in a construction-equipment business in Arizona. En route, he planned to stay with friends in Denver, before starting his venture. By the time he got to Phoenix,

per and walked around him with his hand on his gun. He was ultimately banned from the U.S. for five years, Shearer was. Unprofessional behavior won't be tolerated, says INS spokesman Russell A. Bergeron Jr. Williamson and Shearer are parties to a suit brought in the U.S. by the American Immigration Lawyers Assn., challenging the 1996 law. **POWER PLAY.** The case is bringing out more horror stories. On Apr. 6, six power-line workers invited south by Florida Power & Light Co. for job screening were kept off their flight even though FP&L had advertised the jobs in a Toronto paper, paid for the men's tickets, and planned to help them get any required visas. Martin Briggs, one of the men, says an official who detained him for 4½ hours declared: "There's no way

MAY THESE GATES NEVER BE CLOSED



Thousands of would-be visitors were detained or denied entry by INS officials. Some were even hit with a five-year ban on travel to the U.S.

VANCOUVER YACHT CAPTAIN NEIL SHEARER STRADDLES THE CANADA-U.S. BORDERLINE

Williamson thought, a required investor visa would have come through. He told officials a half-truth, saying he planned to visit friends. But they found business paperwork in his car and accused Williamson of planning to work illegally.

Both Williamson and Shearer make chilling claims about their experiences. They say officers forced them to sign self-damning statements. Williamson says that when he protested, he was told he would be jailed. When he wrote he was being made to sign under duress, he says the immigration officer ripped up the pa-

per and walked around him with his hand on his gun. He was ultimately banned from the U.S. for five years, Shearer was. Unprofessional behavior won't be tolerated, says INS spokesman Russell A. Bergeron Jr. Williamson and Shearer are parties to a suit brought in the U.S. by the American Immigration Lawyers Assn., challenging the 1996 law.

The INS says much of the problem in Canada is a "media frenzy." But they're not convincing nervous Canadians. "We can't tell them anything negative, or good," advises Eric S. Winters, president of computer firm MIS Consultants, who staffers frequently cross the border for business. These days, Winters and other Canadians are wondering just what the Canadian-U.S. amity means.

By Joseph Weber in Toronto

YOUR MONEY? OR YOUR HEALTH?

Since day one, the measure of good health care in America has been held hostage by a faulty equation: The most money buys the best care. The unfortunate legacy of the old fee-for-service system is it did a better job of raising costs than quality. ■ Can any system raise the quality

of health care for Americans while controlling its costs?

We believe the answer is an unqualified yes. ■ First off, the best care cannot be defined as the most expensive or the least expensive. *It is the right care delivered at the right time.*

Ideally, it's a measure taken to prevent an illness before it ever occurs. Like an immunization, for instance. Or one that catches a disease early enough that something can be done about it. ■ That's why our women's program was the first to

cover annual mammograms for all women over 40. We know what it costs, but by treating breast cancer in its earliest stages, we also know what it can save. ■ The best care can even halt the progression of chronic disease. Our congestive heart failure program provides a cardiac nurse to educate at-risk members on the importance of taking prescribed medications, and to help them make lifestyle adjustments. The result has been a significant decline in hospitalization rates and an overall improvement in patient well-being. ■ Not coincidentally, our model of prevention, early detection and chronic disease management promotes better health, with the added value of lowering health care costs. Which in turn enables companies such as ours to provide more people than ever the best choices modern medicine can offer. And do so without offering the one choice no one should ever again have to make: Their money? Or their health?



You'll feel better about it.



LABOR

NOT SO UNITED AT UNITED THESE DAYS

The ESOP has some nonunion employees feeling shorted

Four years after United Airlines Inc. workers swapped wage and benefit cuts for a 55% stake in their company, most of the carrier's 92,000 employees are flying high. After all, shares of parent UAL Corp. have soared 350%.

So how come 19,000 check-in and telephone reservation agents are so frustrated that they're considering joining a union to get what they want? Mainly because they feel they missed out on the goodies. They say they gave up more than their unionized colleagues in exchange for less stock. And agents hired since the Employee Stock Ownership Plan (ESOP) began in 1994 make \$9 an hour and less—even with seniority. "It's a very austere pay scale," says Joseph W. Lewis, a 54-year-old customer service agent in Tacoma, Wash., who makes \$7.90 an hour after three years on the job.

The International Association of Machinists (IAM) hopes to take advantage of the resentment and sign up agents in what would be the largest private-sector union drive since 1984. On Apr. 1, the IAM—which already has 26,000 UAL mechanics—filed for a union election, which could come this summer. A victory would allow agents to bargain for higher wages and strengthen their hand when talks begin next year on whether to renew the ESOP in 2000.

The situation is tricky for United, the largest union ESOP company. An anti-union stand would be difficult for CEO Gerald Greenwald, who was actually selected by the unions. For now, he is taking no public position, and United executives decline comment, but the IAM is angered by his refusal to voluntarily recognize the union after a majority of agents signed authorization cards. "Their action was an insult," fumes IAM Vice-President William L. Scheri.

How did agents wind up like this? During ESOP negotiations, former UAL Chief Executive Stephen Wolf hired a team of bankers and lawyers to represent agents. They cut a worse deal, Scheri says, than the IAM did. For example, mechanics would have had a 5% pay hike in 1995 under their contract. They

GETTING PAID PEANUTS

Customer service reps hired in recent years make far less than newcomers at other airlines

Northwest IAM Contract
STARTING SALARY:
\$10.23

United No IAM Contract
STARTING SALARY:
\$6.65

UNITED AIRLINES

gave up the raise and made other concessions for stock. But agents, who probably would have gotten the same hike, got much less stock and no raise. An agent earning \$10 an hour now owns \$32,000 in stock, versus \$72,000 for a similarly paid IAM member.

Then there's the "scale," the wage structure for agents hired post-ESOP. They start out at less than \$7 an hour—and work new to a pre-ESOP agent earning up to \$18 an hour.

They have no pensions and few health benefits. In contrast, unionized agents at Northwest Airlines Inc. start \$10 an hour. And even before USAir Inc. agents joined the Communications Workers of America last year, they earned from \$8 to \$18.70 an hour, CWA officials say. The disparities have raised United agent turnover to nearly 50% a year, insiders say. Some workers don't even leave through training. "People have gone to the bathroom during the first class and haven't come back," says Pamela King, 47, a reservations agent who has been with United since she was 19.

RESTLESS. The IAM's drive—its third UAL this decade—is the latest effort to organize labor to sign up the only major part of the industry that's not unionized. CWA's USAir victory drew in 10 agents, and the union is running a drive at American Airlines Inc.

Meanwhile, record airline profits are stirring labor activism. In recent days, Northwest has been forced to cancel up to 10 flights a day as machinists staged an informal strike down to protest proposed wage cuts. UAL, which on a 22 reported tepid 1.4% earnings growth because of slowdown in Asia, is looking to control costs, too. Adding 19,000 members to the roster won't help. So much peace in the family.

By David Leonhardt
Chicago and Aaron Berns
in Washington, with bureaus reports

THINKING UNION

PAY

About 40% of United's 19,000 agents—hired since UAL's 1994 employee buyout—work for less than colleagues: \$6.65 to \$9 an hour, vs. up to \$17.55.

STOCK PLAN

United agents get fewer shares in the carrier's Employee Stock Purchase Plan than similarly paid members of the International Association of Machinists.

OUTSOURCING

United agents fear for their jobs because the airline is already farming out other ground work.

Wouldn't it be nice if your work was *impossible* to ignore?



ng out can be hard work. Making it happen in business is even harder. Unless you have Adobe® software. Suddenly ordinary unication will have more impact. Capture attention. Get results. All with the help of Adobe Photoshop, Illustrator, PageMaker, and ript. See for yourself, today, with our free product sampler CD. Call 1-888-724 4503 ext. 42801. Or visit www.adobe.com/unforgettable.

Suddenly, you're unforgettable.

LABOR

A SHOT IN THE FOOT?

California's Prop 226 could hurt business as well as labor

Conservative Republican Grover G. Norquist and his Washington (D.C.) group, Americans for Tax Reform, seem to have a great political victory within their grasp. Polls show that 66% of California voters—not to mention a majority of union members—support Norquist's June ballot initiative, which would require unions to get annual written authorization from members before making political contributions.

But Norquist's victory could backfire. As lawyers study the fine print of Proposition 226, a growing number are concluding that it might affect virtually any payroll deduction—not just union dues. How so? To avoid the appearance of union bashing, the bill's authors included employers as well as unions in the language. The result: Some legal experts now believe that any company with employees in California that takes deductions on their behalf may be subject to the proposed law. That would mean employers would be required to



get annual permission from each worker if, for example, their health-care provider spends any money on politics. And the employers would also have to query managed-care providers, insurance companies, or mutual funds about their political contributions.

PAYROLL PERIL "If this passes, it would be a tremendous burden on employers," says Ray Wheeler, a Palo Alto (Calif.) lawyer who represents Silicon Valley companies such as Intel Corp. He plans to advise his clients of the dangers. And in an analysis released on Apr. 15, the independent California Senate Office of Research agreed: "This measure's provisions could apply to a wide range of commonly made payroll deductions."

The problem for Prop 226 stems from the key sentence in the chapter that

limits the use of payroll money by employers and unions. It requires employers to get approval if any part of the paycheck deduction "will be used in whole or in part as a [political] contribution or expenditure." "The authors can argue that this wasn't their intent, but that's what their words say," says David Rosenfeld, an Oakland labor lawyer who first raised the criticism. A federal bill backed by Norquist and House Speaker

er Newt Gingrich (R-Ga.) excludes employers and avoids the problem.

Marc Bucher, the Orange County businessman who co-authored the California proposal, derides the criticism as labor scaremongering. He and other Prop 226 backers say that payroll deductions for such benefits as health care are arm's-length commercial transactions. "The courts will draw the line at who owns the money," asserts David L. Thompson, a Washington lawyer who advises Norquist's group on similar referenda pending in 25 states.

One irony: Until now, business groups had stayed on the sidelines in this battle. Now, labor hopes they will be frightened into joining the opposition.

By Aaron Bernstein in Washington and Steven V. Brull in Los Angeles

PHARMACEUTICALS

BEYOND VIAGRA

Combos of impotence drugs will crop up next

No question, Pfizer Inc.'s new impotence drug, Viagra, looks to be a super blockbuster. In its first full week on the market in April, more than 36,000 prescriptions were written, and as of Apr. 22, Pfizer's stock was up 51% for the year.

But other new treatments are also in the works. And many of the 30 million American men who have experienced erectile dysfunction may find that the best solution is a combination of therapies—a sort of impotence cocktail. "I think the real story will be the polypharmacy of erection," says Dr. Gregory A. Broderick, director of the University of Pennsylvania's Center for the Study of Male Sexual Dysfunction.

Why the need for a cocktail? Viagra blocks an enzyme involved in preventing erections and worked for 70% of the men who tried it. But for men dissatisfied with Viagra, an alternative is now in final clinical trials. An oral version of an existing drug called apomorphine stimulates the center in the nervous system responsible for erections. TAP Pharmaceuticals, a joint venture of Abbott Laboratories and Takeda Chemical In-

dustries Ltd., plans to study the effectiveness of Viagra and apomorphine combination. Another medication, Vasmax, developed by Zonagen Inc., blocks receptors that prevent blood vessels

TO YOUR HEALTH

"Cocktails" of several pills may be risky—as fen-phen was



the penis from dilating. If approved by the Food & Drug Administration, Zonagen's drug will be marketed by Schering-Plough Corp.

But doctors warn that impotence cocktails should be tested carefully first. The

cite last summer's debacle with the fen-phen diet drug combo. Fenfluramine hydrochloride, the fen in that combo, was pulled from the market after data showed that many patients taking fen-phen may have suffered heart valve damage. "Indiscriminate combinations can lead to medical disasters," warns Dr. Harin Padma-Nathan, a urologist at Santa Monica, Calif., who has overseen studies of Viagra and apomorphine.

With luck, this time, physicians, patients, and the pharmaceutical companies will be able to show a little more restraint.

By Amy Barrett in Philadelphia



IF YOUR PAGING SERVICE ISN'T GUARANTEED,
YOU COULD BE MISSING SOME IMPORTANT MESSAGES.

, mirror, on the wall, missing messages is no fun at all. That's why SkyWord Plus from SkyTel® is the first nationwide paging service that
teens you'll get the message no matter what. How? When you go out of range, SkyWord Plus stores your messages and automatically delivers
o you when you get back. Even if your pager's been off or your batteries have died, your messages will still get to you. And all of this costs less
most ordinary paging. So get SkyTel. And get the message, guaranteed. Limited liability (10) from all other parties. © 1991 SkyTel

Caller I.D.
Now Available.

FEATURES	SKYWORD PLUS SERVICE
Guaranteed Delivery	Yes
E-Mail On Your Pager	Yes
Protection Against Garbled Messages	Yes
Monthly Cost	\$24.95

SkyTel 

Call 1-800-815-9536
or visit www.skytel.com

Tel features advanced messaging pagers by Motorola.

SkyWord Plus price includes 600 10-character messages. Equipment and enhanced service available at an additional charge. © 1991 SkyTel. SkyTel is a subsidiary of Mtel, a NASDAQ company.

In Business This Week

EDITED BY KELLEY HOLLAND

A BID FOR MELLON BANK MAY GET NASTY

THE BANK DEALS JUST KEEP coming. On Apr. 22, Bank of New York offered to pay \$24 billion for Pittsburgh-based Mellon Bank. The bid came after merger discussions between the two failed last year. In a statement, Mellon Chairman Frank Cahouet said the bank was not for sale. But while BNY Chairman Thomas Renyi wrote in a letter to Cahouet that he would only pursue a consensual deal, analysts believe the Mellon refusal may not be the end. BNY is one of the few banks with experience in hostile deals, having won Irving Bank in 1988 after a long fight. "This could be a bit of a battle," says Janney Montgomery

Scott analyst Claire Percarpio. Mellon stock rose 8%, to 78, suggesting investors think some deal is likely.

SEAGRAM UN-SCOTCHES A DEAL

IS SEAGRAM FINALLY GOING TO buy EMI? The British music giant's shares are up about 10% on rumors that a deal is coming, and Hollywood sources say talks between the two companies have picked up. EMI's price may have held back Seagram CEO Edgar Bronfman Jr. But low 1997 earnings pulled down EMI's share price by a third. EMI acknowledges that its chairman, Sir Colin Southgate, was in Los Angeles, headquarters of Seagram's Universal Studios, on Apr. 22—but for talks with EMI's U.S. executives.

CHINA SLAMS A DOOR IN AMWAY'S FACE

AMWAY'S RAPIDLY GROWING door-to-door business in China was dealt a blow on Apr. 21 when Beijing banned direct marketing. The move could also hurt Avon and Mary Kay. The decision, by China's State Council, will shut down the \$178 million-a-year China business of Amway Asia Pacific except for products for distributors' personal use, until Amway can devise another plan. Still, says Amway Chairman Stephen Van Andel: "We have invested \$100 million in China over the last five years and we continue to believe in the long-term business opportunities of this enormous market."

DEC AND INTEL BURY THE HATCHET

THE FEDERAL TRADE COMMISSION is expected to O.K. by Apr. 24 the patent settlement announced last Oct. 27

HEADLINER: ROBERT BORK

LAISSEZ-FAIRE—UP TO A POINT

Conservative jurist Robert Bork stunned the antitrust community when he announced on Apr. 20 that he was working for Netscape and was calling on the Justice Dept. to file a broad suit against Microsoft. But it turns out he is merely the most visible in a growing circle of conservatives to question Microsoft's marketplace conduct. Others include Reaganites James Miller III and Daniel Oliver, who each chaired the Federal Trade Commission during the 1980s, and Jeffrey Eisenach, president of the Progress & Freedom

Foundation, a think tank founded by House Speaker Newt Gingrich. Conservatives say they aren't softening their free market ideology, but Microsoft's behavior may be so anticompetitive that intervention could be needed. "If you don't think this case should be brought, I challenge you ever find a case that should," Oliver says.

Microsoft, meanwhile, now awaits the ruling of a three-judge panel, which Apr. 21 heard its motion to reverse a December injunction that Justice won to force a 1995 consent decree.

By Susan Garlin



CLOSING BELL

JAIL CONVERSION

Corrections Corp. is rehabilitating itself. The Nashville prison operator said on Apr. 20 it will become a real estate investment trust by merging with CCA Prison Realty Trust—just nine months after it sold shares of that REIT to the public. Corrections Corp. says the move makes it a stronger marketer. But shares fell 3%, to 29%—and dropped further, to 27%, on Apr. 21. Investors were disappointed to learn the new company will grow only about 25% a year, down from 45%.



DATA: BLOOMBERG FINANCIAL MARKETS

between Intel and Digital Equipment Corp., according to industry sources. To end a patent dispute between the companies, Intel agreed to buy Digital's Hudson (Mass.) semiconductor fabrication plant for \$700 million and manufacture Digital's Alpha processor there for at least five years. Since the deal was inked, Digital has agreed to be acquired by Compaq for \$8.4 billion. To ensure that Intel can't undermine Alpha with a tepid commitment, the FTC has pressed Compaq and Digital to line up AMD as an additional manufacturing source. The Alpha is made by Digital and Samsung.

ENRON RETREATS FROM CALIFORNIA

LIGHTS OUT. ENRON IS PULLING back from an aggressive push into U.S. retail electricity and natural-gas markets that are deregulating. After spending

about \$250 apiece for 30,000 California residences signed, the Houston energy company is suspending efforts to recruit residential customers. Californians get state-mandated rate cuts staying with their suppliers had limited interest in energy sellers, a spokesman says. Enron also plans to the generating capacity acquired over the California border just one year ago its \$2 billion purchase of Portland General Electric.

ET CETERA...

- Boeing reported quarterly earnings below analysts' already reduced forecasts.
- Britain's General Electric is crossing the Atlantic to buy Tracor for \$1.4 billion.
- National Semiconductor will lay off 10% of its workforce and take a \$65 million charge.
- Former Comptroller of the Currency Eugene Ludwig is joining Bankers Trust.

Become receptive to new ideas.

*Like capturing
ideas as fast as you
can write them down.*

*Like focusing
attention on the
meeting, and not
on taking notes.*

*Like printing notes
directly from the board.
No mouse clicks.
No keystrokes.*

*Like displaying
and editing ideas
in color.*

*Like using a new
technology without
changing the way
you work.*

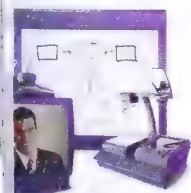
*Like sharing full-
color meeting notes
with team members via
email or the Internet.*

*Like saving accurate
meeting notes to your PC—
for everyone, automatically.*

Introducing the 3M® Ideaboard IB3000 Series. It's obviously useful and absolutely simple. For more information about 3M Advanced Meeting Solutions, call 1-800-952-4059 or visit www.3M.com/meetings

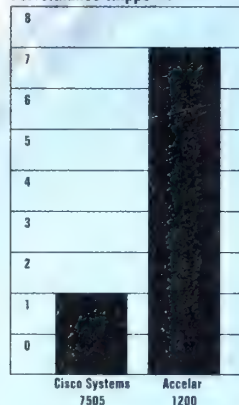
Make the meeting.

3M Innovation

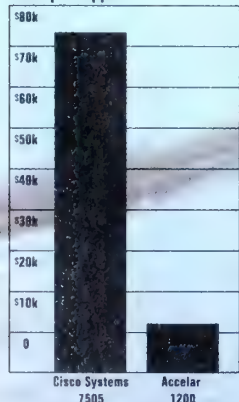


THE NEW ECONOMICS OF NETWORKING. THE ACCELAR ROUTING SWITCH VERSUS CISCO ROUTERS.

INFORMATION FLOW*
Performance (Mpps**)



CASH FLOW*
Price per Mpps



Adaptive Network
Switching/Routing
Accelar
Network Management
IP Services

Business success
demands constant
improvement. And adding
Bay Networks Accelar™

Routing Switch family to your
network is a great way to start.

Accelar provides remarkable IP
performance gains at a fraction of the
competition's current cost. And your existing
network doesn't have to change. Simply front-
end your current routers (even Cisco's) with Accelar

Routing Switches. Information flow dramatically
increases. And so does cash flow. Call 1-800-8 BAYNET

ext. 371 to evaluate an Accelar Routing Switch on your network
free! Your network can't wait. And neither can your bottom line.

Get the rest of the story. Visit www.baynetworks.com/go/accelar



Bay Networks

Where Information Flows

*Based on published vendor performance data and published price lists. **Millions of packets per second. Subject to restrictions, contact Bay Networks for more information. ©1999 Bay Networks, Inc. All Rights Reserved. Bay Networks is a registered trademark and Accelar and Where Information Flows are trademarks of Bay Networks.

EDITED BY OWEN ULLMANN

BOOK WHO'S PUSHING HEALTH-CARE REFORM NOW

The GOP, which marched to power on Capitol Hill in 1994 by stomping on Bill Clinton's health-care plan, is suddenly coming on like Clara Barton. Polls show voters are worried about the availability and quality of medical care—and looking to the Democrats to do something about it. So these days, congressional Republicans are brimming with suggestions to reform the health system.

GOP leaders are betting that their late-in-the-game proposals will prove that Republicans can deliver compassion without promising smaller government. But Democrats aren't about to let the GOP walk off with the health-care issue in an election year. The ensuing struggle threatens to produce a victor that will make both voters and the losers.

One leading GOP idea: a \$10 billion package of tax cuts, funded by higher tobacco levies, to subsidize health coverage for 41 million uninsured Americans. The package would make good on GOP promises of annual tax cuts while undermining the President's plan to spend \$10 billion in tobacco funds on child care, education, and Medicare for early retirees.

POLITICAL IMPERATIVE. House Speaker Newt Gingrich (R-Ga.) figures that tax changes to subsidize health coverage are a more politically palatable use of tobacco money than, say, another cut in capital-gains rates. And by focusing on access to health care, the GOP hopes to divert attention from another hot issue that has left the party sharply divided: protection of patients in managed-care plans.

But anger has created "a political imperative" for the GOP to deal with managed care, confesses one top Republican strategist. But what to do? Proposals for a "patient bill of rights" are popular with back-benchers, who hear their constituents complaining about HMOs. But the leadership is fearful of business, which fears new costs and red tape. A

Republican House task force is trying to broker a compromise that will lead to "some modest patient choice" of plans, says Representative John Linder of Georgia, who heads the House GOP reelection committee. But "we'd sure rather talk about tax cuts," says a Republican strategist.

Democrats are fighting to keep the GOP from changing the subject. They've drafted a more sweeping bill of rights. And they're lining up behind a bill, introduced by Senator Edward M. Kennedy of Massachusetts on Apr. 22, that requires businesses with 50 or more employees to provide health insurance.

SMELLING A TRAP. Neither measure has much chance of passing—but Democrats expect to score points anyway. If the GOP compromises, the Dems figure, they can take credit for forcing the majority to cave. And if the bill of rights and insurance proposals fail, they can blast Republicans for obstructionism.

Aware of the potential trap, some Republicans are searching for a way out. On Apr. 21, House Commerce Committee Chairman Tom Bliley of Virginia revealed that he's drafting a plan to allow small and medium companies to join private insurance-purchasing pools. That would let businesses offer workers their choice of a dozen or more health plans, from old-fashioned fee-for-service insurance

to restrictive HMOs. Bliley is pitching his proposal to the GOP task force as a twofer: Pooled coverage would be cheaper. And by letting workers choose, Republicans might defuse the prickly issue of patient protection.

But even Bliley's approach is more than GOP leaders want to tackle. They're hoping that tax cuts and a modest anti-HMO bill of rights—coupled with a strong economy and rising wages—will satisfy voters. It's a gamble that Democrats don't intend to let them win.

By Mike McNamee, with Richard S. Dunham



GINGRICH: Listening to voters

CAPITAL WRAPUP

TOBACCO AND POLITICS

The White House is fretting that Big Tobacco has successfully split the Republican Party with its lobbying blitz against antismoking legislation. The result: Passage of a bipartisan measure sponsored by Senator John McCain (R-Ariz.) is suddenly looking likelier.

Working with conservatives and business lobbyists, the industry is poring over McCain's bill, which seeks \$500 million in damages, as a push by the GOP to finance Big Government pro-

grams with what amounts to a huge tax increase. House Speaker Newt Gingrich, a recent critic of Big Tobacco, has reversed course and now assails the McCain bill as too liberal. To discourage other Republicans from following the Speaker's lead, Clintonites pounced on Newt as a tobacco stooge.

Despite strong opposition from the Right, White House operatives are still betting that a bipartisan bill will pass the Senate by late May. That would put House Republicans on the spot. Gingrich will be forced to compromise with the Senate or risk handing the

Democrats a potent campaign issue in this fall's elections. "Newt's brain must have short-circuited," chortles one Administration official, who believes that the Speaker privately still wants a deal with the Senate and the White House.

Republicans gripe that the President is a cigar-chomping hypocrite less interested in curbing teen smoking than he is in playing politics. Still, GOP leaders fear they're being backed into a corner. "It's something we need to be concerned about," concedes House Majority Leader Richard K. Arney (R-Tex.).

By Richard S. Dunham

April has been a cruel month for the rulers of Malaysia. Standard & Poor's lowered its rating of the country's currency, citing the fear that bad loans may reach 20% of local banks' portfolios by yearend. The local stock market dropped 2.4% in one day, in part because of rumors that Malaysian Airline System, the national carrier, was preparing a complex restructuring that would also cover its chief executive's personal debts. The deal renewed foreign investors' concerns that the country was sanctioning rescue attempts for politically linked conglomerates at the expense of minority shareholders.

Yet Prime Minister Mahathir Mohamad is sticking to his own formula for fixing the nation's ills. He hopes high interest rates and some bank reform will force Malaysia Inc. to get more competitive. But he's also keeping banks and giant corporations afloat to minimize social instability. "Our model is [doing it] our way," says Daim Zainuddin, Mahathir's top economic adviser. The fear is growing, however, that a quick rebound is impossible. "The worst is yet to come," warns Mohamed Ariff, executive director of the Malaysian Institute of Economic Research.

In an Apr. 20 interview, the 72-year-old Prime Minister seemed more subdued than at the start of the crisis but remains a sharp critic of the International Monetary Fund and the doctrine of free currency flows. He spoke with Asia Regional Editor Joyce Barnathan and Singapore Bureau Manager Michael Shari in his office.



MALAYSIA

MAHATHIR SPI

Malaysia's Prime Minister on currency

Q: What are the lessons of the Asian financial crisis?

A: That we are not invulnerable, that our currency is no longer determined by our banks, that others can devalue our currency at will.

Q: You remain critical of how exchange rates are determined by market forces.

A: Market forces are motivated not by the desire to discipline governments but to make money. It's not in their interest to stabilize currencies.

Q: In a recent speech, you still imply that fund managers are responsible for the collapse of the ringgit.

A: Well, that's what I believe. I may be wrong. But since they refuse to expose the manner of their determining the value of a currency, I assume what I said is right.

Q: Do you expect to see a consolidation in the banking sector in Malaysia?

A: The banks should not default, at least not because of what they did. They were

quite capable of lending the money and quite capable of collecting their debts. But when you devalue the currency and you depreciate the value of the banks' shares, people assume the banks must be in trouble.... As far as the government is concerned, we will have to help the banks remain viable.

Q: Are you concerned that financial reform will lead to social upheaval?

A: If in the process [of reform], you

cause massive unemployment, social problems, political problems, you're not really doing yourself a good turn.

Q: But the argument is that after some short-term pain, in the long term, you come out more competitive.

A: I don't buy that idea. After you have killed a whole lot of people, killed a lot of companies, decimated all banks, reduced confidence, then you say: 'Now, we're strong again?' No, it doesn't happen



S OUT

and George Soros

It took us 40 years to reach where we were [before the crisis]. Today, we set back by more than 25 years.

Do you stand by your comments linking George Soros and a Jewish conspiracy for the crisis?

Yes and no, as far as George Soros is concerned. I am quite sure he had a role to play. And when he does something, the rest of the herd follows. It's not a commentary on our civilization that

“Market forces are motivated not by the desire to discipline governments but to make money. It's not in their interest to stabilize currencies”

— MAHATHIR MOHAMAD

we behave like buffaloes who swing from one side to another depending on the direction of the leader.

Q: *What about a Jewish conspiracy?*

A: As far as a Jewish conspiracy is concerned, what I said in the speech is that since most of the currency traders are Jewish, and it affects Muslim countries in East Asia, people will think this is a Jewish conspiracy. I didn't say I think this is a Jewish conspiracy.

Q: *Do you think Jewish traders intended to hurt Malaysia?*

A: No. I think they want money. It is profitable for them. When you devalue currency and you short-sell, you make a lot of money. Everybody wants money. And here is a cheap way to make money. You just push figures on a computer screen, and you make a billion dollars. I would do that, too, if I got a chance.

Q: *So it's not an ethnic issue.*

A: It's not an ethnic thing. It's just perhaps greed, which can be found among Jews, among anybody else. I am quite sure some of the traders are not Jews, but they are also motivated by profit.

Q: *What about the IMF study that says domestic investors are responsible for the crisis?*

A: I would like to see on what basis the IMF concludes that Malaysians devalued their own currency and caused unhappiness for themselves.

Q: *Have you seen the IMF study?*

A: I have not. I have had communication with [IMF director] Michel Camdessus, who explained that the hedge funds amount to only \$180 billion but that banks are also involved in currency trading. And the banks have got \$23 trillion. How can you counter that?

Q: *You can't. But what the IMF is saying is that hedge funds police the currencies.*

A: But every time a policeman arrests a person, he makes a lot of money. Would you trust that policeman?

Q: *What about charges your son Mirzan is seeking a bailout for his company?*

A: Our practice is whenever our relatives are concerned, we don't get involved. If you think I have tried to help my son, you are entitled to think so, but as far as I am concerned, I don't get involved.

Q: *Are you disappointed with Japan's leadership role in the region?*

A: Yes and no. When the trouble started, Japan offered to raise \$100 billion to support these countries. But others objected because they said this would undermine the IMF. I am disappointed with Japan because they have \$200 billion in U.S. government bonds, which they can sell off to strengthen the yen—and maybe even buy ringgit. They haven't done so.

Q: *Is China taking a greater leadership role in Asia?*

A: We have to thank China for not devaluing their renminbi. But one has to remember China is a developing country.

Q: *Is the government united? When Deputy Prime Minister Anwar Ibrahim was in the U.S., he talked a lot about reform, but the tone of this interview is quite different.*

A: He said that there should be openness not only for governments but accountability on the part of those who deal in currencies and that the movement of short-term capital is not well-documented. People keep on wanting to publish what he says about liberalization. I say the same thing, but nobody mentions it. He admits and I admit we have done things which may be considered wrong in the eyes of foreign investors.

Q: *What are you referring to?*

A: About crony capitalism. We don't have a monopoly on that. In other countries, they have this. We are willing to do away with that. We are not corrupt because we want to be corrupt. But people... talk about crony capitalism as if we go and find cronies. What we do is when people have the capacity to do well, we give them a hand.

Q: *What is your greatest worry now?*

A: It is the continuation of these kind of [currency] attacks. There is no guarantee that they will not start again.



POWER LUNCH Businessmen rendezvous at São Paulo's Bar des Arts café

BRAZIL

SUN, SAMBA—AND A HEALTHY ECONOMY?

With inflation tamed, Brazilian business has a whole new look

Chief Executive Américo Emilio Romi Neto strides through the sprawling factory of his family company, Indústrias Romi. Located in Santa Bárbara d'Oeste, a town 100 miles north of São Paulo, Romi has been turning out machine tools since 1943. For years, the company mostly served Brazil's sheltered market. Now, it churns out computerized lathes for customers in

Europe as well as in the U.S. Profits soared to \$51.8 million last year, up 30%, on sales of \$159 million. "The whole business climate in Brazil is different now," says Romi, 42. "If you sell in only one market, it's hard to survive."

Romi is just one of hundreds of companies that epitomize the new shape of Brazil's \$800 billion economy, the world's eighth-largest. Businesses are thriving in

the environment created by Brazil's clampdown on inflation in the mid-1990s. After the country opened its market to the world. From banks to poultry processors, companies are racing to set up productivity as the economy shifts from boom-and-bust cycles to steadily longer-term growth.

Some, such as Banco Itaú, Brazil's No.2 commercial bank, and steelmaker Usiminas, are also expanding beyond Brazil's borders and becoming major South American players. Foreign investment is pouring in, too. This year Brazil is expected to attract a record \$20 billion in direct investments from abroad, such as the \$1.6 billion it got for cellular-phone licenses in April from groups including Bell Canada and Motorola Inc. Portfolio managers worldwide

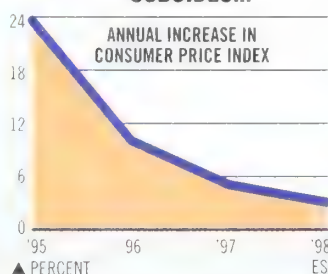
are snapping up Brazilian stocks, especially the already traded minority shares of state companies on the privatization block, such as telecom giant Telebrás. **TRAINING.** This Brazil is not the gaily highflier it was in the 1970s and 1980s when its fast growth was undermined by runaway inflation. Today, Brazilians believe they can focus more on structural problems such as inadequate schools. For the first time, many workers are able to buy consumer goods at wages that inflation used to devour. Businesspeople, too, are starting to believe that work counts for more than beating the system.

Instead of juggling short-term fixes as they did when inflation was 40% a month, executives are pumping money into technology and worker training. Some companies send employees to study in MBA programs in the U.S. Thanks to the government's efforts,

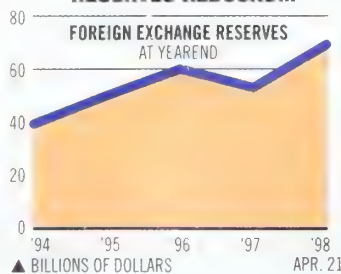
CONFIDENCE IS GROWING

The Real Plan has stabilized the economy

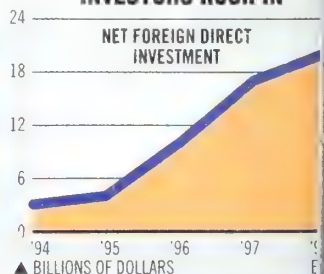
INFLATION SUBSIDES...



...AND CURRENCY RESERVES REBOUND...



...AS FOREIGN INVESTORS RUSH IN



DATA: CENTRAL BANK OF BRAZIL
BT ALEX. BROWN RESEARCH, SBC
WARBURG GILSON READ, BANKBOSTON



"I just took him through the budget."

—Mark Sweeney, CFO

Clear, wireless service with plans for any budget.

Every big business struggles to keep costs predictable in an unpredictable world. So in addition to 100% digital call clarity, Sprint PCS has Flexible Business Plans that offer affordable, predictable airtime rates. And two new calling features designed to keep costs manageable. Home Rate USASM, included for no extra charge, eliminates roaming charges anytime, anywhere, on our nationwide network. And Toll-Free USASM, which gives you 1,000 minutes of clear wireless long-distance calls for an additional \$9.99 a month. To anywhere in the U.S. Anytime. Sprint PCS. The clear alternative to cellular.



1-888-509-6462 • www.sprintpcs.com/clear

Sprint PCS

Home Rate USASM and Toll-Free USASM may not be used in conjunction with certain other promotions or rate plans. Subject to business credit approval and restrictions. Home Rate USASM and Toll-Free USASM do not apply when roaming off the Sprint PCS Network. Under Toll-Free USASM, long-distance minutes in excess of 1,000 (500 minutes for Southern California and Nevada subscribers) will be \$10 a minute. Toll-Free USASM may be combined with Weekend or Off-Peak Option but will be billed at \$10 a minute. See Business Buyer's Guide materials for complete restrictions and limitations. ©2001 Sprint Spectrum L.P. All rights reserved. Sprint, Sprint PCS, Sprint Personal Communication Services and the diamond logo are trademarks of Sprint Communications Company L.P., used under license.

slash red tape, corruption is diminishing. "Brazil is going through a big cultural change," says Roberto Setubal, president of Banco Itaú. "There is a concern with efficiency that didn't exist before."

Oddly enough, the Asian financial turmoil that threatened to trigger a run on Brazil's currency last fall has instead cast Latin America's largest market in a more favorable light. The government's goal of moderate growth that businesses once griped about is now considered a virtue by many. President Fernando Henrique Cardoso's hands-off policy toward business is also seen as a breath of fresh air, compared with the way Asian rulers meddled in their economies. With Asia unsettled, Brazil's market of 160 million people looks more inviting to multinationals

lion in spending cuts and tax hikes.

Although growth will slow to 1.5% this year, down from 3% in 1997, Cardoso's decisive response is enabling Brazil to recover sooner than expected. Interest rates have fallen to 23.3%, close to their pre-Asia level of 21%, and growth in gross domestic product could rebound to 3% to 4% next year. Currency reserves, after a dip, climbed to a record \$70 billion by Apr. 21, \$10 billion more than before the crisis.

Cardoso, a former socialist who took office as President in January, 1995, will still face thorny problems if he wins a second four-year term in October. The economic slowdown has pushed joblessness to 7.4%, up from 5.5% a year ago. Government spending will have to be cut sharply to reduce the budget deficit,

trade initiatives in the region right now.

From Santa Catarina state in Brazil's prosperous south to Salvador in the poor northeast, Brazilians' growing self-confidence is visible. In São Paulo, trendy outdoor Bar des Arts, bankers and executives discuss deals over a *caipirinha*, Brazil's rum-banana cocktail. Along São Paulo's Pinheiros River, prospective first-time car owners kick the tires of used autos offered on stable credit terms that didn't exist a few years ago.

REAL PROGRESS. All this is the payoff from the anti-inflationary Real Plan launched by Cardoso as Finance Minister in 1994. It combined measures to stabilize the real with other free-market reforms and should hold inflation to just 3.5% this year, down from 940% in 1993.

Confidence is spurring a new wave of foreign investment. Foreign companies are making Brazil the main platform for their South American operations. For example, Ford Motor Company, with Brazilian sales that soared 5% last year, to 280,000 cars, announced in March that it would invest a further \$2.5 billion in Brazil by 2000. That comes top of \$2.5 billion already planned.

Meantime, local companies are shaping themselves for a more competitive era. Votorantim Group, a cement and-paper producer with \$4.2 billion in sales, is investing \$430 million this year in software to integrate business systems. Last year, investors snapped Eurobond issues of \$150 million by cement maker Votorantim Cimentos and publicly traded paper producer Votorantim Celulose e Papel (VCP), as VCP restructured. VCP turned a \$1 million profit on sales of \$633 million after a \$21.8 million loss in 1996.

Although Brazilians worry about rising unemployment as companies restructure, the working poor are among the greatest believers in the changes that have come to the country. An estimated 30 million people have entered the consumer class in recent years. Severino Joaquim da Silva, who earns \$550 a month working at a São Paulo bakery. Before, "you left most of your salary in the supermarket," he says. But in the past few years, he bought a used car, stereo, TV, refrigerator, and furniture on payment plans up to 15 months.

Da Silva is emblematic of Brazil's new outlook. He's determined and willing to work hard because he believes he's on course toward a better life. Da Silva and many other Brazilians see no looking back.

By Ian Katz in São Paulo



PIECE OF CAKE Bakery worker da Silva can afford a new fridge

seeking high returns. "If investors analyze the size of market, economic stability, and political stability, Brazil now becomes more attractive than Asia," says José Luiz Saicali, a partner at KPMG Peat Marwick in São Paulo.

A LESSON. Brazil could still be vulnerable to another outside shock because its currency, the real, is considered at least 10% overvalued. But Cardoso's handling of the economy after Asia's crash served as an emerging-market lesson on how to turn a crisis to advantage. Shunning a devaluation, the Central Bank doubled the basic interest rate, to 43%, to discourage speculation against the real. Cardoso prodded Congress to act on reforms that will help trim the budget deficit, and he pushed through \$18 bil-

lion, which was 5.9% of GDP last year. Even if Congress approves social security reform, as expected, it needs to go further to set up a Chilean-style private pension-fund system to raise Brazil's paltry savings rate of 16% of GDP.

Nevertheless, Brazil's steady performance is reinforcing its clout as Latin America's biggest power. This role was dramatized at the Apr. 18-19 Summit of the Americas, a gathering of 34 Presidents and Prime Ministers, including President Clinton, in Santiago, Chile. The summit agreed to launch talks for a Free Trade Area of the Americas, which would go into effect in 2005. But as leader of Mercosur—a regional trade bloc with a combined GDP of \$1.1 trillion—Brazil is the dominant force in



**"Reminiscences of the North" by Van Gogh.
Printing, collating and stapling by Mita.**

If all the Mita Ci7500 Color Imaging System gave you was brilliant 600 dpi color, that would be impressive. But it can also produce sorted, stapled, completely finished documents right from your computer. Which makes it truly a work of genius. For more information, call 1-800-ABC-MITA or visit www.mita.com.



JAPAN

SUDDENLY, MICROSOFT IS AN UGLY AMERICAN

Windows swamps a Japanese rival, sparking an angry backlash

The last hope. That's how many Japanese have viewed Justsystem Corp., the PC software developer based in Tokushima. Microsoft Japan has swept away all local operating systems and their supporting software with its Japanese-language version of Windows. But in applications, Justsystem has held out, thanks to a superior word-

Word, released in March, that irons out the kinks of earlier versions. Word 98 nosed out Ichitaro for the top spot in the category. "Justsystem used to have the superior product, but now we've got the edge," says Hirohisa Ohura, a managing director of Microsoft Japan.

So much of an edge, in fact, that some Japanese are getting very upset at

fices. The FTC suspects that long before Word 98 debuted, Microsoft was forcing Japanese PC makers to install Word 5 by threatening to deny them the right to install its popular Excel spreadsheet program. "Because it controls the operating system market, Microsoft is using its influence to push Word and Excel," maintains Ryuhei Tsuyama, a Tokyo-based executive for Justsystem. The company says Ichitaro has traditionally outsold Microsoft 2 to 1 in stores. But in the preinstalled business market, Word has pulled out in front.

Ohura shrugs off the allegations: "The FTC is now studying the matter, but we believe that we have conducted our business with the right philosophy." Analysts speculate that the probe's outcome may depend on what courts U.S. regulators take with the own investigation of Microsoft. The FTC declines to comment.

DOMINATION. If the Japanese investigation does not deal a serious blow to Microsoft, and if the market outcry dies down, Microsoft will soon own most of Japan's \$4 billion packaged-applications software market. It already controls an estimated 40%, and a successful word processing war all it lacks. Microsoft is betting that Windows 98, which comes out in Japan in July, will trigger a recovery in the PC hardware market, which saw shipments decline 7% last year. "The way things are going, Microsoft will dominate the software market here for as long as there are desktop PCs," says Shinichi Wakahara, a software industry analyst with Gartner Group in Japan.

Meanwhile, Justsystem executives admit they spent too much on research and development in a vain attempt to match Microsoft. The company is cutting 600 jobs as part of a plan to save \$60 million, but it's unclear if it will suffice. "Someone has to buy a company," says Mahendra Negi, an analyst at Merrill Lynch & Co. in Tokyo. "Justsystem has a whole line of products, good engineers, and a good name. But they were unfortunate in that they lost in Microsoft's war. Japan is a closed market to many companies. To Microsoft, it's a colony."

By Irene M. F...



GOLIATH WINS: Ichitaro's market share fell from 74% to 40% in just a year

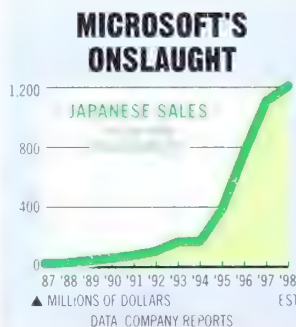
processing product, Ichitaro. Just six months ago, as it was going public on the over-the-counter market in Tokyo, Justsystem confidently predicted an operating profit of \$23 million and an annual sales gain of 27%, to \$300 million, for its fiscal 1997.

It was David vs. Goliath—only now, the giant is winning. In the past 12 months, Justsystem has seen its overall market share for Ichitaro tumble from 74% to 40%, with the sharpest drop coming since February. In January, the company had to revise its earnings forecast to an expected loss of \$33 million on sales of \$185 million in 1997. Justsystem's shares have slid from the initial offering price of 20 to under 5.

The cause of this reversal: Microsoft's years of dogged effort, and a new Japanese-language version of Microsoft

Microsoft, which 12 years after setting up its subsidiary in Japan has about \$1.1 billion in local sales (chart). "Microsoft is seen as a foreign company with a different culture and language coming in and dominating us," says Kousuke Aoki, director of think tank Multimedia Research Institute. Windows has been popular, but the threat to Ichitaro has hit a nerve. Local papers are calling for steps to save Justsystem.

The government has taken notice, too. In January, as Justsystem's troubles began to surface, the Japanese Fair Trade Commission raided Microsoft Japan's of-



UNDERNEATH ITS COLD, WICKED EXTERIOR
LIES THE HEART OF A PRUDENT ENGINEER.



closer to the spider's web, and you'll witness
ingenious technical triumph. Pound for
pound, not even steel can match the strength of
spider silk. At Phillips, we appreciate bold engineering,
which explains why we attract the brightest
engineering talent, including Lori Hasselbring, Ph.D., P.E.,

and Mark Lashier, Ph.D., P.E. Both were recently
named "Young Engineer of the Year" by the
National Society of Professional Engineers.
And both make brilliant examples of what it
means to be The Performance Company.

PHILLIPS PETROLEUM COMPANY



For a copy of our annual report, call 918-661-3700, or write to: Phillips Annual Report, B-41, Adams Bldg., Bartlesville, OK 74004,
or visit us at www.phillips66.com

EDITED BY JOHN TEMPLEMAN

RUSSIA: THE RACE THAT COULD LAUNCH LEBED

Movie actor Alain Delon is there. So is Moscow's Mayor, Yuri Luzhkov. The odd couple are campaigning for rival candidates in a close-run Apr. 26 race for the governorship of Russia's huge and resource-rich Krasnoyarsk region in Siberia. The French heartthrob backs Alexander I. Lebed, Russia's former national security chief, whom he met in Paris in 1996. Luzhkov is rooting for incumbent Valery M. Zubov.

The contest has brought out Russia's Moscow-based oligarchs in droves, too. Boris A. Berezovsky, a mogul with a penchant for political intrigue, is bankrolling Lebed. Berezovsky's archrival, Vladimir O. Potanin, head of Oneximbank's Interros holding company, favors Zubov. They and other moguls helped President Boris N. Yeltsin to win his narrow reelection in 1996.

Heavy hitters are flocking to the contest because it's a dress rehearsal for the 2000 presidential elections. If Lebed wins, he will get a seat in the Federation Council, Russia's upper house, access to cash from the region's aluminum and nickel resources, and the base he needs to build support in Russia's lower house, the State Duma. Thus, victory would give him a powerful launchpad for a run at the presidency. Failure would make him political roadkill. That's why Luzhkov, also a presidential hopeful, is championing Zubov.

HUGE STAKES. The oligarchs are playing a devious game in Krasnoyarsk. Although Berezovsky is backing Lebed, for example, he says he doesn't want him to be President. Instead, he wants to stop Luzhkov from scooping up Russian nationalist voters, who also like Lebed, because he doesn't want the Moscow mayor in the Kremlin either. "We are playing a complex political game," admits Berezovsky.

But whatever the outcome, the moguls are here to stay in provincial politics. They have huge financial stakes in the regions—and want officials in place who can protect them or

render services such as facilitating permits and government contracts. "They [work to] elect governors who can represent the interests of the local elite and business groups," says Sergei N. Samoilov, Yeltsin's liaison with the regions.

Krasnoyarsk is a case in point. The region is the home of Norilsk Nickel, the world's largest nickel producer, controlled by Oneximbank. Krasnoyarsk Aluminum, in the south, is the world's second-largest aluminum plant, controlled by Moscow's Rossiskiy Kredit bank. Meanwhile, Yuksi, a huge new com-

pany controlled by Berezovsky and fellow baron Mikhail Khodorkovsky, has licenses for oil and gas fields there.

When thwarted, the moguls wreak their revenge. Governor Mikhail Narolin was beaten in an Apr. 12 election in the Lipetsk region after Oneximbank gave heavy support to his opponents. Narolin had failed to help Oneximbank get board seats on the Novolipetsk Metallurgical Plant in which it has a big stake. "If the moguls can't get what they want, as in Lipetsk, they replace people," says Carnegie Moscow Center political analyst Nikolai Petrov.

Local business elites remain key players. The Krasnoyarsk Aluminum Factory, for example, originally invited Lebed to run for governor. But in small regions, Moscow-based moguls can decide the outcome of elections. In Krasnoyarsk, where Gazprom is active, says Yeltsin's aide Samoilov, company officials meet to discuss whether local leaders are helpful enough to keep. "The results are pre-

determined," he says.

Today's Russia is a long way from being a Western-style democracy. Business elites have growing clout in local elections. Yeltsin's administration supports the trend as the best way to attract foreign investors. But Yeltsin may soon find that the oligarchs can thumb their noses at him, too.

By Patricia Kranz in Moscow



LEBED: A power base?

GLOBAL WRAPUP

ISRAELI EDGE FOR SOUTHERN?

► Southern Energy Inc., a unit of Atlanta-based Southern Co., has teamed up with an Israeli labor union to acquire a big stake in state-owned Israel Electric Corp., says IEC union leader Yoram Oberkovitz. Prime Minister Benjamin Netanyahu's office announced plans to sell 49% of the company. Analysts figure IEC may be worth \$13 billion, making it Israel's biggest privatization.

Under a one-year agreement, Southern and the union would negotiate to

buy control of IEC. The union picked Southern after running a beauty contest with possible partners. Southern may have had the edge, say industry sources, because it is represented locally by lawyer David Shimron, a Netanyahu confidant.

A BRITISH HIGHFLIER FALTERS

► Bad news continues to plague erstwhile highflier British Biotech PLC, which has a promising broad-spectrum cancer drug, Marimastat. On Apr. 20, it fired Andrew Millar, director of clinical research, for

allegedly disclosing confidential data to shareholders. Its shares have fallen to 89¢ from a high of around \$5 in May, 1996. The company also said the U.S. Securities & Exchange Commission is investigating press releases issued in 1995 and 1996.

Millar could not be reached for comment. The company claims he told outsiders the company was holding internal debates over whether to seek partners. Analysts said they believe Millar passed the info to Henley-based fund manager Perpetual PLC, owner of about 9% of British Biotech stock.

YOU SHOULD KNOW WHAT INVESCO KNOWS.

In the financial world, knowledge is king. And the trick is knowing where to get it and how to use it. At INVESCO, we've been managing money in every kind of market in every kind of economy for 65 years. Our 38 no-load funds, including 11 sector funds, provide a wide range of international, growth, value, income, total return, tax-free and money market options. You can experience our

wealth of knowledge and global perspective firsthand through your financial advisor, your retirement plan at work, or by contacting us direct at www.invesco.com or 1-800-2-INVESCO. We'll send you a prospectus on any of our funds with information regarding management fees, risks and expenses. Please read it carefully before you invest or send any money. Then you'll know



INVESCO



How to get a 10,000-person organization acting like a small hungry band of entrepreneurs.

Technology has the ability to become the great equalizer.

Small businesses can seem like much larger ones. And perhaps more incredibly, large businesses can actually be as fast and nimble as much smaller ones.

My company Your customer asks if you can ship next week instead of next month. Can you? Is it possible to book the extra cargo flights? Can your vendors comply with the new schedule? Does Sales need to adjust the price to cover the changes? Can your customer absorb the overages within your current contract? How did the Southeast Asia sub handle it when they had a similar situation last year?

You'll need to know all these things, right now.

A Digital_Nervous_System can help.



A Digital_Nervous_System relies on connected PCs and integrated software to make information flow more rich, rapid and accurate. This helps you act faster and close the gap between you and your customers, employees, and vendors.

It's not something that comes in a box.

You build your own Digital_Nervous_System, over time, to meet the unique and changing needs of your company.

The foundation of any Digital_Nervous_System is software that acts alike, works alike, thinks alike. Microsoft® Windows®, Office and BackOffice® provide an ideal foundation for a Digital_Nervous_System because we built them from the ground up to work with each other, as well as with an industry's worth of applications.

With a Digital_Nervous_System, you act like a small business because all the critical decisions can be made as if you're all in the same room.

Yet you still have all the resources of a bigger business.

Everyone on the same page. Everyone hungry. Things just work.

Where do you want to go today?

Microsoft

www.microsoft.com/digital_nervous_system/



*How electronic commerce
could create the most efficient
market of them all*

GOOD-BYE TO FIXED PRICING?

Coca-Cola Co. has a bold idea: Why should the price of a can of Coke be the same all the time? Would people pay more for a cola fix on a sweltering summer day than they would on a cold, rainy one? The beverage giant may soon find out when it begins experimenting with "smart" vending machines hook up to Coke's internal computer network, letting the many monitor inventory in distant locales—and change prices on the fly.

re, consumers might balk if Coke's prices were suddenly increased. But they also might be persuaded to buy a cold one on a chilly day if the vending machine flashed a special option, say 20¢ off—the digital equivalent of the blue-light special. Says Sameer Dholarkia, director of pricing solutions for in-based software maker Trilogy Systems: "List pricing is practically irrelevant."

Forget sticker prices. Forget sales clerks, too. There's a revolution brewing in pricing that promises to profoundly change the way goods are marketed and sold. In the future, retailers will offer special deals—tailored just for you, just in the moment—on everything from theater tickets to bank statements to camcorders.

Behind this sweeping change is the wiring of the economy. The Internet, corporate networks, and wireless setups are connecting people, machines, and companies around the globe—connecting sellers and buyers as never before. This is enabling buyers to quickly and easily compare products and prices, putting them in a better bargaining position. At the same time, the technology allows sellers to collect detailed information about customers' buying habits, preferences—even pricing limits—so they can tailor their products and prices. This raises hopes of a more efficient marketplace.

Today, the first signs of this new fluid pricing can be found on the Internet. Online auctions allow cybershoppers to bid on everything from collectibles to treadmills. Elec-

tronic exchanges, on the other hand, act as middlemen, representing a group of sellers of one type of product or service—say, long-distance service—that is matched with buyers.

The pricing revolution, though, goes beyond the Net. Companies also are creating private networks, or "extranets," that link them with their suppliers and customers. These systems make it possible to get a precise handle on inventory, costs, and demand at any given moment—and adjust prices instantly. In the past, there was a significant cost associated with changing prices, known as the "menu cost." For a company with a large product line, it could take months for price adjustments to filter down to distributors, retailers, and salespeople. Streamlined networks reduce menu cost and time to near zero.

This will clearly benefit consumers. Already, many are finding bargains at the hundreds of online auction sites that have cropped up. And on the Net, it's a cinch to check out product information and compare prices—thanks to a growing army

of shopping helpers called "bots" (page 84). That,

says Erik Brynjolfsson, a management-science professor at Massachusetts Institute of Technology, "shifts bargaining power to consumers."

But that doesn't mean sellers get a raw deal. Businesses can gather more detailed information than ever before about their customers and run it through powerful database systems to glean insights into buying behavior. While the concept of point-of-sale promotions, such as Coke's, is not new, in a wired world, it takes on a whole new dimension. Suddenly, marketers can communicate directly with prospective buyers, offering them targeted promotions on an individual basis. Says Yanni Bakos, a visiting professor at MIT's Sloan School of

Special Report



PLAYING THE PRICE IS RIGHT

Internet bidding exchanges are flourishing for a wide array of products—and more are sure to come

AUCNET (aucnet.com)
Wholesalers flock to this used-car auction. A big draw: AucNet's rating system, which helps buyers judge the quality of the cars



NARROWLINE.COM (narrowline.com)
An electronic exchange for Net advertising that brings together media buyers with Web sites looking to sell available ad space

Management: "It's like an arms race, where you give a more powerful weapon to both sides."

As buyers and sellers do battle in the electronic world, the struggle should result in prices that more closely reflect their true market value. "The future of electronic commerce is an implicit one-to-one negotiation between buyer and seller," says Jerry Kaplan, founder of Onsale Inc., a Net auction site. "You will get an individual spot price on everything."

The notion of fixed costs is a relatively recent development. A couple of hundred years ago, when a person went to the cobbler to order a pair of shoes, they negotiated the price face-to-face. It wasn't until the arrival of railroads and canal systems, which allowed products to be distributed widely, that uniform prices came into being.

The Net brings us full circle. "We've suddenly made the interaction cost so cheap, there's no pragmatic reason not to have competitive bidding on everything," says Stuart I. Feldman, director of IBM's Institute for Advanced Commerce based in Hawthorne, N.Y. Someday, you might haggle over the price of just about anything, the way you would negotiate the price of a carpet in a Turkish bazaar. Except it's likely to take place on an electronic exchange, and it may be a computer bidding against another computer on your behalf.

WIN-WIN. For a preview of what's to come, just look to the financial markets. Take the NASDAQ stock market, or Instinet's even more automated system, after which many Net entrepreneurs are modeling their businesses. NASDAQ, for example, uses a system of dealers, or market makers, who trade shares of stock for brokers or individuals. The dealers are linked by an electronic network that matches buy orders with sell orders, arriving at the value of a stock for that moment in time.

Like NASDAQ dealers, the new Internet market makers must set up mechanisms for clearing transactions and for making sure that both buyers and sellers are satisfied. As electronic exchanges are established to trade everything

EWORLDAUCTION

(eworldauction.com)
This site holds monthly online auctions of old books, maps, and medieval manuscripts



from advertising space to spare parts, the true market value of products will emerge. "All of this brings you closer, closer to the efficient market," says Robert MacAvoy, president of Eastman Consulting in Stamford, Conn.

The most widely used form of this today is online auction. In the world of virtual gavels, Kaplan's Onsale is the king. The Web site runs seven live auctions a week where people outbid one another for computer gear, electronics equipment, even steaks. Onsale buys surplus or distressed goods from companies at fire-sale prices so they can weather low prices. And customer love it. Grant Crowley, president of Crowley's Yacht Yard Inc. in Chicago, bought 14 old-model desktop PCs for his business via Onsale. He figures he saved 40% of what he would have paid in a store. "It's a great deal for people in small businesses like mine," Crowley says.

So far, the lure of a bargain has proved powerful: More than 4 million bids have been placed since Onsale opened its doors three years ago. It sold \$115 million worth of goods last year, up nearly 300% from 1996. "Suddenly, consumers are active participants in price-setting," says Onsale founder Kaplan. "It's infinite economic democracy."

For every couple dozen online auctions, though, there

MARKET (netmarket.com)
\$69 a year, subscribers to
adant's Web site can shop
a wide range of products—
os, books, music, and
re—at the guaranteed
est price. If Netmarket's
rch agent finds a lower
e elsewhere, it will
antly drop
price



PRICELINE (priceline.com)
Mortgages, cars, and
airline tickets: Name your
price and terms—and
Priceline, a new Web
service, will try to find you
a willing seller

ENERGYMARKET

(energymarket.com)
This exchange,
launched last fall by
Southern California
Gas, lets suppliers of
natural gas—and soon,
electricity—compete
for the
business
of big
corporate
energy
users



preneur applying the new Net economics in ways that
ultimately transform entire industries—from telecommu-
nications to energy. These companies are setting up ex-
changes for trading things such as phone minutes, gas sup-
ply and electronic components, a market Forrester Research
estimates will grow to \$52 billion by 2002. Their approach is
a departure from the past that analyst Vernon Keenan
at Research Inc. says they represent the "third wave"
of commerce on the Net—companies that are moving be-
yond simple marketing and online order-taking to creating en-
tirely new electronic marketplaces.

FOOTING. Who are these trailblazers? Some are es-
tablished companies, while others are born of the Net. But
all share a radical new vision of electronic commerce.
"This is the model of the future," says Eric Baty, business-in-
novation manager at Southern California Gas Co.

One might not think of a stodgy utility as being in the van-
guard of cyberspace, but that's exactly where Southern Cal-
ifornia Gas is. A couple of years ago, it saw an opportunity in
the dovetailing of two sweeping trends—the deregulation of
the energy industry, which lets customers shop for energy
the way they shop for long-distance phone service, and
the rise of the Web. So, last fall, it launched Energy Mar-
ketplace, a Web-based exchange that lets customers shop
for the best gas prices.

The system has something for everyone. Small and midsize
customers list their prices on the exchange. That lowers
marketing costs and gives them access to a broader
market—putting them on equal footing with big energy sup-
pliers. Customers, mostly businesses, save money by shopping
for the best price, or locking in long-term deals when prices
are low. And Southern California Gas, as a distributor, in-
creases its volume of business and collects a subscription
fee from gas providers that use the exchange. In coming
years, SoCalGas will offer residential customers the same
opportunity and expand the service to include electricity.

Does it work? Using Energy Market-
place, Sumiden Wire Products Corp. in
Stockton, Calif., found a new supplier, In-
termarket Trading Co., and now saves \$500 a
month—about 20% of its \$3,000 a month energy
bill. "They're cheaper than the other guys," says Wayne
Manna, plant manager at Sumiden. "It's much simpler and
easier than before."

Energy Marketplace is typical of the early electronic
bazaars. Like the pork bellies or wheat traded in the financial
markets, the first goods to be bartered in the new electronic
markets are commodities. Whether No. 2 steel or No. 2 pen-
cils, price—not features or how something looks, feels, or
fits—is the determining factor in a sale. And if the commod-
ity happens to be perishable—such as airline seats, oranges,
or electricity—the Net is even more compelling: Suppliers
have to get rid of their inventory fast or lose the sale.

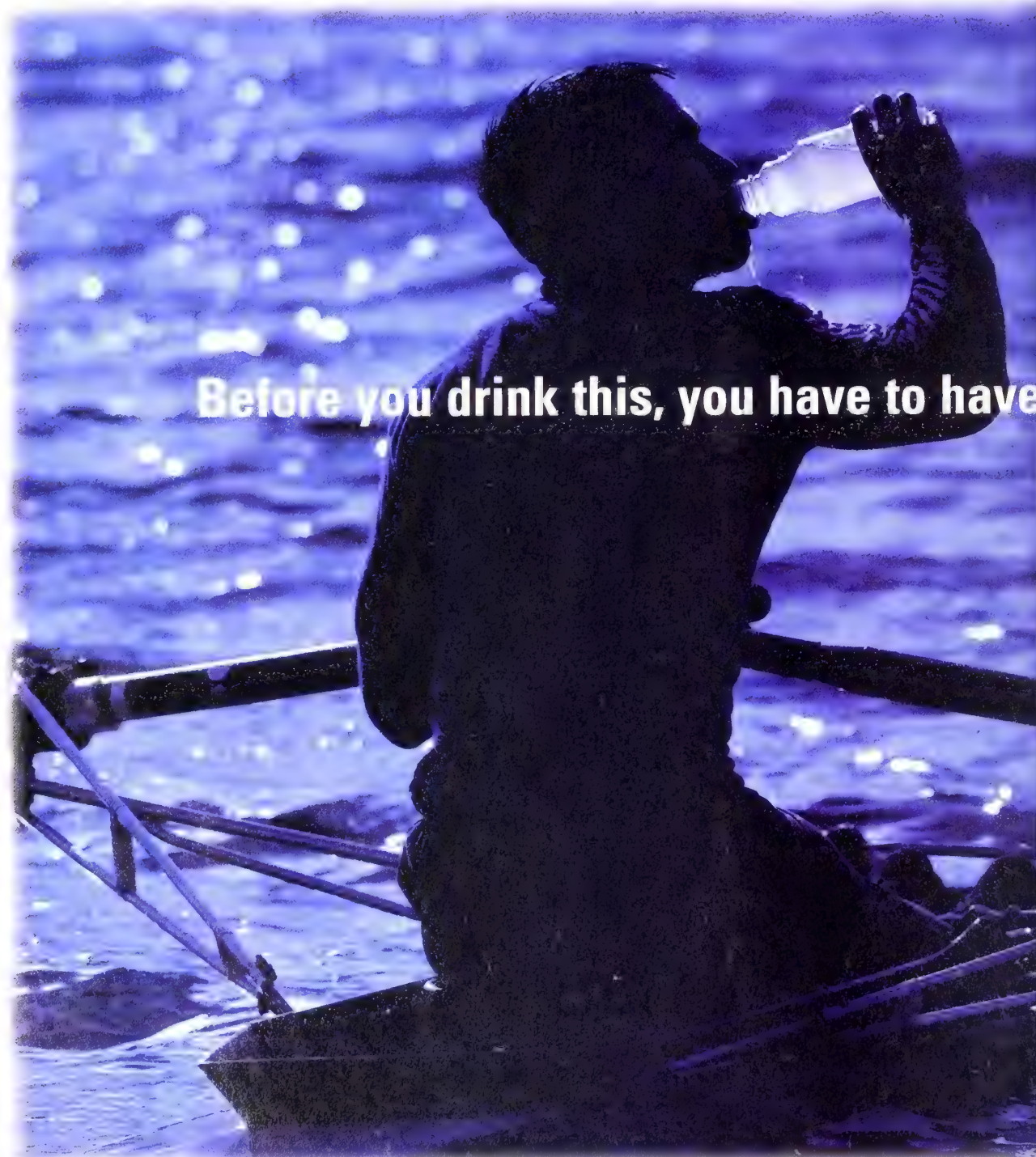
Alex Mashinsky sees similar qualities in long-distance phone
minutes. A former commodities trader, Mashinsky's New
York-based ArbiNet (short for Arbitrage Networks) is build-
ing an exchange for
routing phone calls
over the lowest-cost
networks—on the fly.

Most telecommunications carriers have built massive net-
works to handle peak loads. The problem is, much of the ca-
pacity goes unused. AT&T, for example, typically uses just 20%
of its global network capacity. In a fiercely competitive market
that has seen margins erode, "that excess capacity is becoming
extremely sensitive," says Mashinsky. "It can be the difference
between making money and losing money." ArbiNet's ex-
change lets carriers optimize their capacity by accepting lower-
cost calls over their networks during off-peak hours. There are
other companies that broker long-distance minutes. But Arbi-
Net is the only one attempting it in real time.

The ArbiNet Clearing Network works this way: Net-

Special Report

SIEMENS

A man is shown in silhouette, sitting in a small boat on a body of water. He is holding a clear plastic bottle to his mouth and drinking. The water is dark with many bright, shimmering reflections of light. The boat's structure, including oars and a mast, is visible in the foreground and background.

Before you drink this, you have to have

Automation • Automotive Electronics • Computer Systems • Energy • Lighting • Medical Systems • Microelectronics • Power Generation • Telecommunications • ...

Even the simplest products—a soft drink, a newspaper, a chocolate bar—have a lot of technology behind their manufacture. As competition intensifies, the pressure to streamline manufacturing processes intensifies accordingly. As a global leader in industrial automation, we create intelligent, flexible systems that can reduce production times even as they

improve quality and productivity. From drive systems to complete building installations, from power distribution systems to turnkey assembly lines, we can provide any manufacturer with a stand-alone component or with a fully integrated solution. So whether you need the whole or the sum of its parts, talk to the people who are equally adept at both.

We're Siemens. We can do that.™

this



this



and this.





Your Business Is Growing. Congratulations. Who's Going To Do All The Work?

Your business is doing so well, you have a pleasant problem – you need more help. Take-charge people who are as good as the people you already have.

That's where we come in. We're Management Recruiters International, your staffing partner. The leader in permanent,

flexible, and right-fit staffing solutions. With over 700 offices and 3,000 recruiters worldwide, our comprehensive network is poised to fulfill your staffing needs. From sales professionals, technical specialists, and office support to a key senior manager, MRI has more

search specialists in place for more industries than anyone.

At MRI, we're here to help you grow. Especially when you're already growing.

For more information, call 800-875-4000 or visit our website at www.mrinet.com.

Sales Consultants*

Management
Recruiters

CompuSearch*

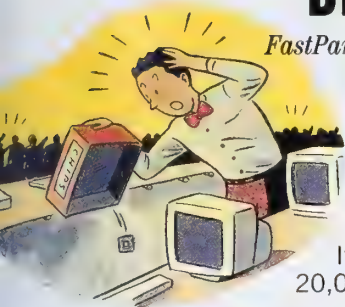
OfficeMates5*

MRI Intelligent Staffing Solutions.

www.mrinet.com

DIARY OF A DIGITAL SALE

FastParts matches buyers and sellers of computer electronics



1 A COMPUTER MAKER finds itself with a shortage of a memory chip needed to assemble a circuit board. It needs to buy 20,000 chips—fast.

PURCHASING EXEC

on to FastParts, Internet trading exchange, and search information at the chip seeking. system runs a list of available lots, with price, quantity, and other details. One lot looks like it fits the bill: 20,000 of the needed chips are available at 36¢ a piece.

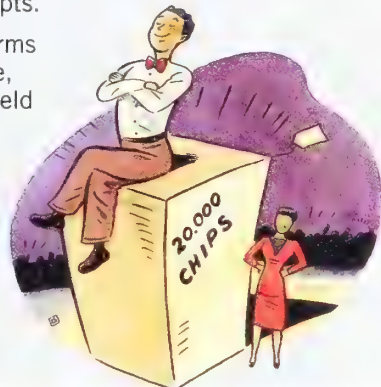


3 THE BUYER puts in a lower bid: 29¢ apiece. The supplier and other buyers interested in the same part are notified of the bid by E-mail.



4 THE SELLER lowers the price to 33¢. The computer maker is alerted by E-mail. It's a good price, and he accepts.

5 FASTPARTS confirms the details of the sale, and the payment is held in a special escrow bank account. Once the buyer receives the chips, he has five days to inspect and accept them. After five days, the payment is released to the seller.



carriers, such as AT&T, supply information about their network availability and price at a given time. Carrier customers send calls through ArbiNet's clearinghouse—say, a call from New York to Hong Kong that must travel over secure lines. ArbiNet's powerful computers and phone lines match the request with the lowest-cost carrier for that particular call, check to make sure the capacity is in fact available, and route the call—all in a millisecond. "We can gauge the capacity available at any given time," says Mashinsky. ArbiNet's focus today is on the wholesale, or carrier-level, business. But Mashinsky thinks that two years

from now, the market will be ripe for consumers. A "smart" phone, for example, could automatically check for the lowest carrier on each call that is placed. Such a scenario could be unnerving to the giant phone companies. "The big carriers don't want to do this," says Mashinsky. "It would undercut their prices."

Indeed, big businesses are sensitive about falling prices.

Some entrenched companies already are fighting the idea of electronic markets that make it easy for customers to compare products and prices. Houston-based energy giant Enron Corp., for example, last month filed suit against SoCalGas and its Energy Marketplace. Enron, which plans to enter the California market, alleges that Energy Marketplace unfairly favors local suppliers that are better known. SoCalGas calls the suit a blocking tactic.

BEYOND SURPLUS. Other big players are embracing the Net, but half-heartedly—using it to dispose of surplus goods while protecting margins on their core products. Not that surplus inventory is anything to sneeze at. Chicago-based FastParts Inc. and FairMarket Inc. in Woburn, Mass., operate thriving exchanges where computer electronics companies swap excess parts. All told, U.S. industries generate some \$18 billion in excess inventory a year—around

Special Report

TRAILBLAZER

Finding new ways to connect buyers and sellers is the common vision.

"This is the model for the future," says Baty of SoCal Gas

10% of all finished goods, says Anne Perlman, CEO of Moai Technologies Inc., a Net startup that makes software for creating online bartering sites. "Excess and obsolete equipment is a big and painful problem," she says.

Or a huge opportunity. Perlman knows firsthand about surplus goods. Before joining Moai, she ran Tandem Computer Inc.'s personal computer busi-



AT A TIME LIKE THIS, THERE ARE SEVERAL
THINGS YOU MIGHT FIND USEFUL:

Dive knife.

Depth gauge.

For application development, testing and management, four out of five of the world's largest corporations rely on Compuware. People and software for business applications.



Shark repellent.

Oxygen.

COMPUWARE

What do you need most?

ness. When Intel Corp.'s 386 microprocessor came out, she found herself with a boatload of earlier-generation 286 chips that were instantly obsolete. Afraid that she might have to write off the inventory as a loss, Perlman made some calls and found a customer willing to buy the stock—though she was left with the nagging feeling that she could have gotten a better price. Now, at Moai, along with co-founders Deva Hazarika and Frank Kang, she sells a \$100,000-plus package to companies that want to run their own auctions to generate revenue from aging merchandise.

Most of the Net pioneers had to build their own systems—a time-consuming and costly task. The availability of off-the-shelf software packages from Moai and others should help jump-start more electronic exchanges.

"THIRD WAVE." That could pave the way for fluid pricing to reach beyond commodity products and surplus goods to popular, even premium-priced items. Electronic markets could be just as effective selling unique items, such as a Van Gogh painting or a company's core product line. "The move away from surplus goods to primary goods will be the real thrust of the third wave," says Zona's Keenan.

There's just one snag: When anyone on the Net can easily compare prices and features, some high-margin products could fall in price. And a strong brand name alone may not be enough to make a premium price tag stick. Some branded products may even prove to be interchangeable. You might not trust your phone service to an outfit you have never heard of on the basis of price alone. But you might be willing

to swap among AT&T, MCI, or Sprint for a better deal. And do you really care if your

Special Report

credit card is from MasterCard or Visa? "There's a commoditization at the top level of brands," contends Jay Walker, CEO of Priceline, a new Web service that lets consumers name their price.

One way companies can respond is by cooking up creative ploys to distinguish their products. That could include

REAL-TIME CONDUCTOR

Mashinsky's ArbiNet will route phone calls to the network that is lowest-cost at that exact moment



personalizing products or offering loyalty programs that ward frequent customers. "Inventiveness in marketing is going to be very important in this world where people can out and compete on price," says IBM's Feldman. That's happening in online brokerage services, a cutthroat market. Thanks to Internet brokers, trading fees are already rock-bottom. Now, companies such as E*trade are mulling loyalty programs that reward frequent traders.

There are other ways to sidestep the effects of the ultra-efficient Net market. Just look at the airline industry. It was one of the first industries to go online, starting with American Airlines Inc.'s Sabre automated-reservation system in the 1960s. When other airlines followed suit, American introduced the frequent-flyer program to keep customers loyal.

Three decades after Sabre, airlines still manage to get many passengers to pay rich fares. The secret: knowing whom to gouge—in this case, the business customer who has to get somewhere and is less price-sensitive. Airlines also have perfected the science of yield management, concocting complicated pricing schemes that defy comparison. The price for an airline seat can change several times an hour, making it virtually certain that the person sitting next to you paid a different fare. "Airlines are using the Internet to raise the average price of a fare," says Ken Orton, CEO of Preview Travel, an online ticketing site.

Now, airlines are tapping into the Net—but mainly as a way to sell unfilled seats. They routinely send out E-mail alerts of last-minute fare specials. And several major airlines have signed up with Priceline, which lets consumers specify when and where they want to travel, and name their

price. Priceline then forwards the bids to participating airlines, which can choose to accept the request or not. "If a company makes its money on the spread between the bid and the lower airline price, it empowers the buyer," says Walker, "but also the seller. They can plug in demand for empty flights."

As long as Priceline is only targeted at the leisure-

SEEDING THE NET

Hazarika, Perlman, and Kang of Moai Technologies, which makes software for creating online bartering sites



Introducing a streamlined
way of doing business on the

Web

that lets you concentrate on

— of all things —

business.



Making the most of the Web shouldn't mean losing focus on your business. Whether you are looking for a basic marketing Web site, or need to conduct large-scale e-commerce transactions, GTE Internetworking has your solution.

For example, we've developed Re@ch Enterprise,[™] a comprehensive suite of value-added Web-based applications and integration services. And thanks to Hopscotch,[™] which seamlessly routes traffic to the most available server, your site will be open for business

around the clock. All supported by 12 secure data centers strategically located at key Internet exchange points around the globe. These are just a few examples of

our many high-performance, reliable and scalable Web hosting services.

We've been pioneering Internet-related technology for over 28 years. To find out how we can put our experience to work for you, call us at 800.472.4565, or visit our Web site at www.internetworking.gte.com.



INTERNETWORKING
POWERED BY BBN



AT 360 DPI
YOU SEE THE
DUCK.

AT 720 DPI
YOU SEE THE
FEATHERS.

YOU'VE GOT TO SEE IT IN

EPSON

COLOR.



AT 1440 DPI
YOU SEE THE
DECAY.

This decoy could fool a real duck. It may even have fooled you. But it didn't fool our printer. See the brush strokes on the chest? The way the water drop beads on the neck? The amazing EPSON Stylus® Color printers picked up every telling detail. Because they're designed with our exclusive PerfectPicture™ Imaging System. 1440 x 720 dpi for incredible detail. Micro Piezo™ Technology for a clean, consistent dot. And Photo Quality color with laser-sharp black text – for print quality that's already won 62 major awards, including PC Magazine's Editor's Choice. You'll get overall print speeds faster than the leading competitor's. PC/Mac compatibility. Plus a two-year warranty. For more information, call 1-800-GO-EPSON (ask for Operator 3100) or visit us at www.epson.com. Just tell them a little bird told you.

**PRESENTING THE WORLD'S FIRST 1440 DPI
COLOR INK JET PRINTERS.**



EPSON Stylus® Color 800. The best printer for business.

EPSON Stylus® Color 600. The best printer for small offices.

the business—traveler, airlines are willing to go along. “It’s not for frequent fliers but to get people out of cars without affecting the airlines’ retail price structure,” says Walker.

In the end, such tactics may simply delay the inevitable march of the Internet.

Special Report

And the truth is, Net-based markets may not be such a bad

thing for sellers. They produce a price that fairly reflects demand. Some companies may be surprised by the results.

Look at AucNet, an online auction for used cars. Dealers and wholesalers flock to AucNet’s Web site to buy and sell some 6,000 cars a month. Surprisingly, sellers fetch more

for their used cars than they might on a physical lot. That’s partly because of the larger audience they get on the Web. But dealers also have come to trust the quality ratings. AucNet inspectors assign to each car after physically examining them, and they are willing to pay more for that seal of approval. Moai’s Perlman has seen similar results in other online marketplaces. Most of the time, she says, “the market bid a better price than the vendor was expecting.”

Or at least, the right price. So why fight the perfect market?

By Amy E. Cortese, with Marcia Stepanek in New York

For customized reprints of this Special Report, call 609-5494 (minimum order 500).

A CYBERSHOPPER'S BEST FRIEND

Amy Rommel uses the Web a lot at work. But the 25-year-old public-relations director doesn’t have time to compare prices when buying CDs online. Not, that is, until she discovered Lycos Inc.’s shopping service. Using the search engine’s technology to scour the Web, Rommel found a way to come up with deals at the click of a mouse button. “I knew there were other music sites, but the Web is so big, it’s hard to keep up,” she says.

Shopping services, which include helpers, or “bots,” are popping up all over the Web. They range from true bots—such as the one Lycos uses—that comb sites for prices each time a request is made, to hybrids, such as Compare.Net, a Web site that lists comparative product information.

These clever programs promise plenty of bargains for consumers—and headaches for merchants. Early online merchants often charged higher prices than physical stores because customers would pay for convenience. But bots undercut the convenience premium. A recent Ernst & Young study found that 87% of the 30 consumer products tracked could be bought online at the same price or cheaper than in retail stores. “Margins are going to be pushed down and down,” says Walter A. Forbes, chairman of Candant Corp., which runs an online shopping club.

The timing is right. Web shopping is on the rise—10.3 million people bought online last year, up from 6.3 million in 1996, according to Jupiter Communications Co. That’s prompting Web sites to add bots to their

lineups. Search engines Yahoo! and Lycos offer shopping bots through partnerships with Junglee and InfoSpace. Last fall, Excite Inc. acquired shopping service Netbot. And this month, Microsoft Corp. bought Firefly, which recommends products

WHERE THE BOTS ARE

In Web parlance, “bots” are software “robots” that do your bidding. Among the more sophisticated are digital bargain-hunters.

JUNGLEE Searches databases and Web sites, including job listings from 450 employers, such as AT&T and IBM. Also lists prices and products from 70 merchants. Partners Yahoo! and America Online offer the service for free and share with Junglee a percentage of the revenue they get from merchants.

EXCITE'S SHOPPING SEARCH Available on Excite's site, the free service seeks out products, prices, and reviews from 500 merchants. The technology is Netbot's Jango, which Excite bought for \$35 million last October.

AGENTSOFT Develops software that lets companies build their own agents for comparison shopping of suppliers and subcontractors. It has four test services on the Web, including book shopping on the Amazon.com and Barnes & Noble sites.

based on a consumers’ tastes.

How do they work? Once a request is made, the agents hunt down product information as well as prices and reviews. Excite, for example, tracks products from 500 merchants. Consumers visiting the Excite shopping area type in the name of a spe-

cific product. The service then goes to different merchants’ sites and hunts for current data and prices.

Yet bots have flaws. These first-generation agents can sometimes misidentify data on retailers’ sites.

search for a Tickle Me Elmo doll on Yahoo! Inc. brought back information on that toy—as well as Elmo sheets, Barbie dolls, and Tickle Me Cookie Monster. Accuracy will improve in the coming months with a new language called XML, which

lets site designers create “tags” to define data on a site, making it easier for bots to pick out the right information.

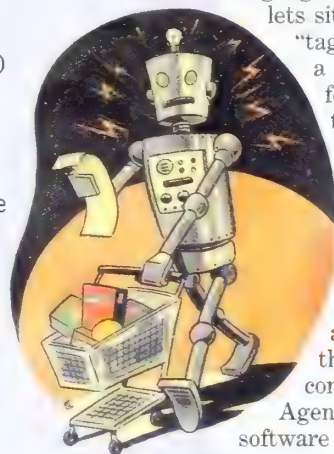
And there’s a new generation of bots in the works. Massachusetts Institute of Technology’s Kasbah can negotiate based on price and time constraints that it is given. And companies such as

AgentSoft Ltd. create software that lets corporations build their own bots.

So what will happen when bots are really let loose on the Net? Sure, there will be bargains. But in computer simulations at IBM’s Institute for Advanced Commerce, bots set off price wars. Some concerned companies already are blocking bots’ access to their sites. But

experts say the best solution is product differentiation and bots that take into account more than price. If that doesn’t work well, bots may just turn out to be too much of a good thing.

By Heather Green in New York



I Need Consistent
Information

And I Need It
Quick

But It Has To Be
Reliable



The SAS® Data Warehousing Solution

**Data Warehousing
Product of the Year**

**Maximum Return
on Investment**

**Information Integrity
and Quality**

**Integrate Diverse
Business Entities**

Web Enabled

Year 2000 Compliant

So much business information. Scattered in so many places throughout your company. Is it any wonder you find it difficult to get your hands on just the right facts to fuel effective decisions?

The SAS Data Warehousing Solution—from the leading decision support provider—delivers consistent, reliable, and timely information right when you need it. Information you can bank on. Information you can build on. Information you can explore from every angle and present in any format.

Find out why more than 3.5 million decision makers in every corner of the world rely on a single software for information delivery and discovery. Visit us at www.sas.com/dwb for more details and to request a free SAS Data Warehousing mouse pad.

**Turning Data
Into the Right
Information...
To Help You
Reach The
Right Decisions**

SAS Institute Inc.

The Business of Better Decision Making

www.sas.com/dwb E-mail: bw@sas.com Phone 919.677.8200

SAS is a registered trademark of SAS Institute Inc. Copyright © 1998 by SAS Institute Inc.

Health and nutrition are predominant concerns of the future in which biotechnology holds the key to innovation. Hoechst Marion Roussel, our pharmaceutical company, is utilizing biotechnology to develop highly effective drugs in the fight against currently incurable diseases. Our agribusiness, Hoechst Schering AgrEvo, is ensuring nutrition for the world's growing population through integrated crop production.



Life Sciences means a new future
for health and nutrition.

Hoechst is an international group of companies spearheading innovation in Life Sciences, including **Hoechst Marion Roussel** and **Hoechst Schering AgrEvo**.

The Future in Life Sciences

Hoechst 



Biotechnology is a key to success
in Life Sciences.

BRIGHTER LIGHTS FOR BIG CITIES

The New Economy needs talent and wiring. Metropolis has lots of both

Publicis Technology Ltd., a creator of interactive Internet advertising, is a hot company on the frontier of the information economy. But its offices aren't in Silicon Valley or Redmond, Wash. Only in downtown San Francisco, says Executive Vice-President Andrew Hayman, can Publicis find the skilled, innovative workers it thrives on. "The lifestyle that the city provides for us, the input that spawns creative energy, is everywhere," he says. In San Francisco, "we are at the center of the universe for new media in advertising."

On the other side of the continent, Merrill Lynch & Co. is wrestling with internal telecommunications demand that has soared 300% since 1995. Its voice and data networks link 57,000 employees in 700 U.S. offices and dozens overseas, and provide online services to millions of customers. In New York City, where telecom suppliers are installing vast fiber-optic networks, Merrill gets plenty of capacity—and lower costs. "Telecommunications is the lifeline of our business, and our enabling technology globally," says Howard A. Shallcross, Merrill's chief technology officer. "Communications costs are becoming more important than real estate, and where

you get the economies is going to be in the large metro areas."

These are tales of the remarkably changed fortunes of America's big cities. Written off as economic dinosaurs only recently, cities have rediscovered in the Information Age many of the attributes that gave them a competitive advantage for centuries, at least as far back as the booming city-states of northern Italy during the Renaissance. Today, big cities are developing into idea factories—tightly integrated combines that generate the information, the conversations, and the spontaneous innovations that are the lifeblood of a knowledge-based economy. They are epicenters of "creative destruction," to use economist Joseph Schumpeter's memorable phrase.

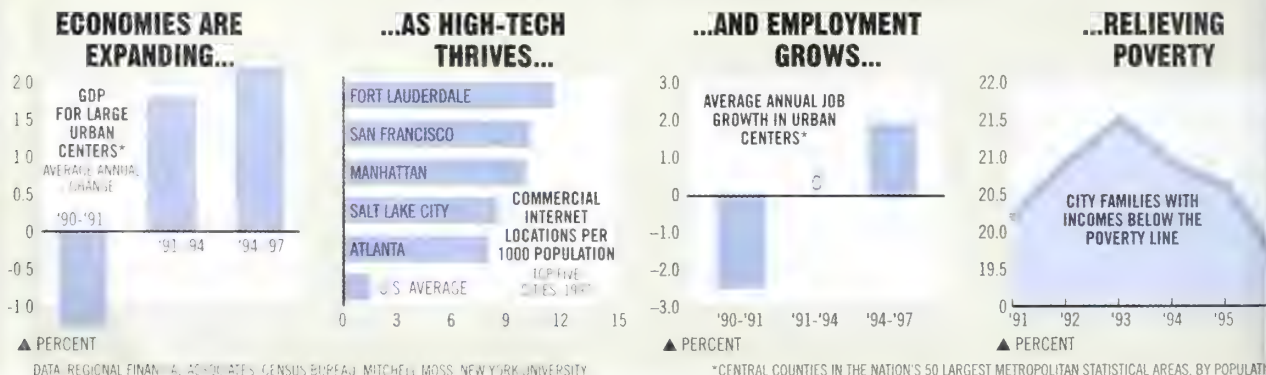
CORE STRENGTH. Knowledge-based industries such as finance, entertainment, communications, and health care increasingly are clustered in cities. They depend on dense, capital-intensive information technologies located in geographically concentrated markets. They need access to the skilled workers, customers, partners, and investors, as well as the universities and cultural institutions, that abound in urban areas. "Cities are about information and skills,

so it shouldn't be a surprise that cities are getting more valuable," says Edward L. Glaeser, economist at Harvard University. Adds Michael Porter, professor at the Harvard business school: "Cities are aligned with the nature of modern competition, with its emphasis on fluidity, information flow, and innovation."

In many ways, it is a stunning revival. In the years following World War II, companies abandoned their urban digs for cheaper space outside town. Those with means followed to jobs. The poor stayed behind and, losing work, grew poorer. As the tax base thinned, city services crumbled. Crime soared and retailing soured. Highways followed the people, and ever more business followed the highways. Cities came forgotten islands.

No more. The emergence of cities as centers of commerce in knowledge

NEW LIFE IN AMERICA'S CITIES





entertainment has coincided with the best economic environment in decades (charts). With labor markets tight across the country, businesses are flocking to cities for the workers they need to grow. Big-city offices are in demand as suburban space fills up. Realtors, leery of putting up yet another market in crowded suburban markets, are seeking new opportunities in the inner city. A continuing flood of immigrants is providing cities with new workers, consumers, business owners, taxpayers.

PS AND LOFTS. As a result, employment in the nation's 50 largest urban areas rose at a 1.9% annual rate from 1994 to 1997, up from flat growth in the previous three years and closing in on the national average of 2.7%. U.S. domestic product for the same period rose at a 2.2% rate, up from 1.9%. Cities' average unemployment rate dropped from 8.9% in 1992 to 6.4% last year, the lowest in decades.

The signs of vibrancy are unmistakable. Stroll around New York, where the sidewalks teem and subway ridership is at record levels. Chicago bursts with

commerce and tourism, and unemployment is at its lowest level in more than two decades. Louisville, hollowed by a business exodus in the 1970s, now offers a rich menu of theater, museums, sports, and other entertainment. Denver's LoDo district, once a skid row, has been transformed into a bustling area full of shops, sports bars, and residential lofts.

Cities are far from regaining the glory of their manufacturing heyday, of course. Many are still losing population, and joblessness and poverty will exceed national rates. The next national economic downturn, moreover, will have an outsized effect on urban areas. But cities should survive the challenge, because they are competing in an economy that works to their advantage. "The prospects for cities are better than they have been any time in the post-World War II era,"

NEW YORK CITY

POPULATION*		+0.1%	
JOBS**		+1.0%	
UNEMPLOYMENT***			
1994	9.3%	1998	8.4%

► Financial services and media drive job growth; outside Manhattan, though, joblessness persists.

WIRED: FIBER-OPTIC CABLE VAULT AT BELL ATLANTIC OFFICES IN NEW YORK.

says Mark M. Zandi, economist at Regional Financial Associates.

Ironically, the Information Age was supposed to be the final nail in urban America's coffin. Just as lower transportation and property costs induced manufacturers to move to the suburbs decades earlier, advances in communications technology, beginning in the 1970s, let companies locate back-office operations far

from corporate headquarters. Little wonder Alvin Toffler, Roger Naisbitt, and other seers in the 1980s predicted that fax machines, the Internet, mobile phones, and similar high-tech gear would eliminate the need for the face-to-face interaction inherent in cities.

It turned out, though, that knowledge-based services thrive in cities, much as manufacturing once did. Cities offer first-rate telecommunications infrastructures, because the geographical

Not only are knowledge-based industries thriving in cities but manufacturing is also making a comeback

concentration of customers allows vendors to invest more in fiber optics and other equipment. New York City is a compelling case in point. A leading center for banking, securities, accounting, and advertising, Manhattan has more fiber-optic cable linking buildings than any other city in the world.

New York's city government is trying to capitalize on that infrastructure to encourage a thriving high-tech industry and revitalize lower Manhattan. It helped establish the \$42.5 million Discovery Fund, which has invested in nine "Silicon Alley" startups and has set up "smart" buildings wired with high-speed communications lines and other digital amenities rare in older New York buildings.

Similarly focused investments in technology are driving business formation in other cities. Media One is building a \$250 million fiber-optic system to support Los Angeles' entertainment, health-care, financial-services, and information industries. The University City Science Center, a consortium owned by 29 universities, will break ground this fall on a \$30 million, 200,000-square-foot facility in west Philadelphia aimed at incubating fledgling information-technology companies.

BUS STOPS. In fact, most Internet activity is concentrated in the nation's major urban centers, according to a study by Mitchell L. Moss, director of the Taub Urban Research Center at New York University. "The largest amount of fiber optics is in densely populated city environments," says Lawrence T. Babbio Jr., president and chief executive of the network group at Bell Atlantic Corp. "Cities have the most modern equipment that we have."

Cities also have dense populations of potential workers, drawing in employers at a time of widespread worker shortages. Yes, city schools still underperform national averages, and many urban residents lack education and skills as a result. For many companies, though, there's no alternative. And relocating an office to the inner city often is easier than negotiating suburban public trans-

portation systems to get workers to far-flung offices.

USA Group Inc. moved from Fishers, Ind., 20 miles north of Indianapolis, to downtown Indianapolis a year ago. The nonprofit company, which offers education and financial products and services, consolidated several scattered operations. That way, it could lure employees from a wider geographic area, all of whom could link up with the citywide bus system. Felicia Moore, a 26-year-old mother of seven, was one. "I've had other prospects for work before this, but I couldn't take public transportation," says Moore, whose job at USA was her first in 10 years. "Because USA Group is downtown, I can take a bus to work. It's \$1 each way, and drops me two houses from my house."

Labor availability is also why Triton Industries Inc., a privately held metal stamper, fab-

ricator, and assembler, has stayed downtown Chicago. President Bruce Wortell says it's difficult to get die-casters, tool and die makers, prototype model makers, and other skilled workers in the suburbs. Besides, Chicago remains a big trucking and rail hub, lowering Triton's cost of shipping to Mexico and the Southeast.

WEALTH EFFECT. Indeed, manufacturing is making something of an urban comeback, mostly in the form of small and midsize companies with high-tech equipment and processes. Computer-based systems for the design, control, and tracking of production processes has sharply reduced the amount of physical space required for many manufacturers, says New York University's Moss. Hillerich & Bradsby, maker of the famed Louisville Slugger baseball bats, returned to Louisville's Main Street in 1996, 22 years after it left the Indiana suburbs. Lower demand for its wooden bats, combined with new materials and just-in-time delivery, allows it to do in 50,000 square feet what once required 300,000 square feet.

When employers move in, the ga-

LOUISVILLE

POPULATION*	-0.8%
JOBS**	+2.3%
UNEMPLOYMENT***	
1994	4.8%
1998	3.4%

► Health care and diverse manufacturing base revitalize city and environs: 140 new employers since 1989.

**BACK TO MAIN STREET:
HILLERICH & BRADSBY'S
BAT PLANT IN LOUISVILLE**



who
will have his suit pressed.
will have his car waiting.
will only have to push one button.

who is he sleeping with?



WESTIN
HOTELS & RESORTS®

With Westin's one-button Service Express®, you get whatever you want.
Whenever you want it. From room service to wake-up calls to you name it.
Simply put your finger on the button. And put all of Westin at your feet.

Choose your travel partner wisely.

Call your travel agent or
1-800-WESTIN-1
www.westin.com



HOW TO HANDLE FIFTY MILLION UNEXPECTED GUESTS.

The only thing faster than word-of-mouth advertising is word-of-e-mail advertising. A positive reputation in cyberspace can bring you millions of new customers; a bad rap spreads ill will at the speed of light.

When you start sending millions of customers at a time to your Web site to do more than browse, you have to be concerned about the quality of their experience. Too much demand, and the performance of your Web site can slow to an annoying crawl (this is bad). Way too much demand, and users won't be able to connect at all (this is terrible). e-business, after all, is about interactivity – buying, selling, customer service, etc. – and if customers can't get through, they can't interact.

This is why scalability is a major issue for any business thinking seriously about becoming an e-business. Scalability is simply the ability to easily increase the capacity of your Web site – to handle more visitors or unexpected spikes in volume.

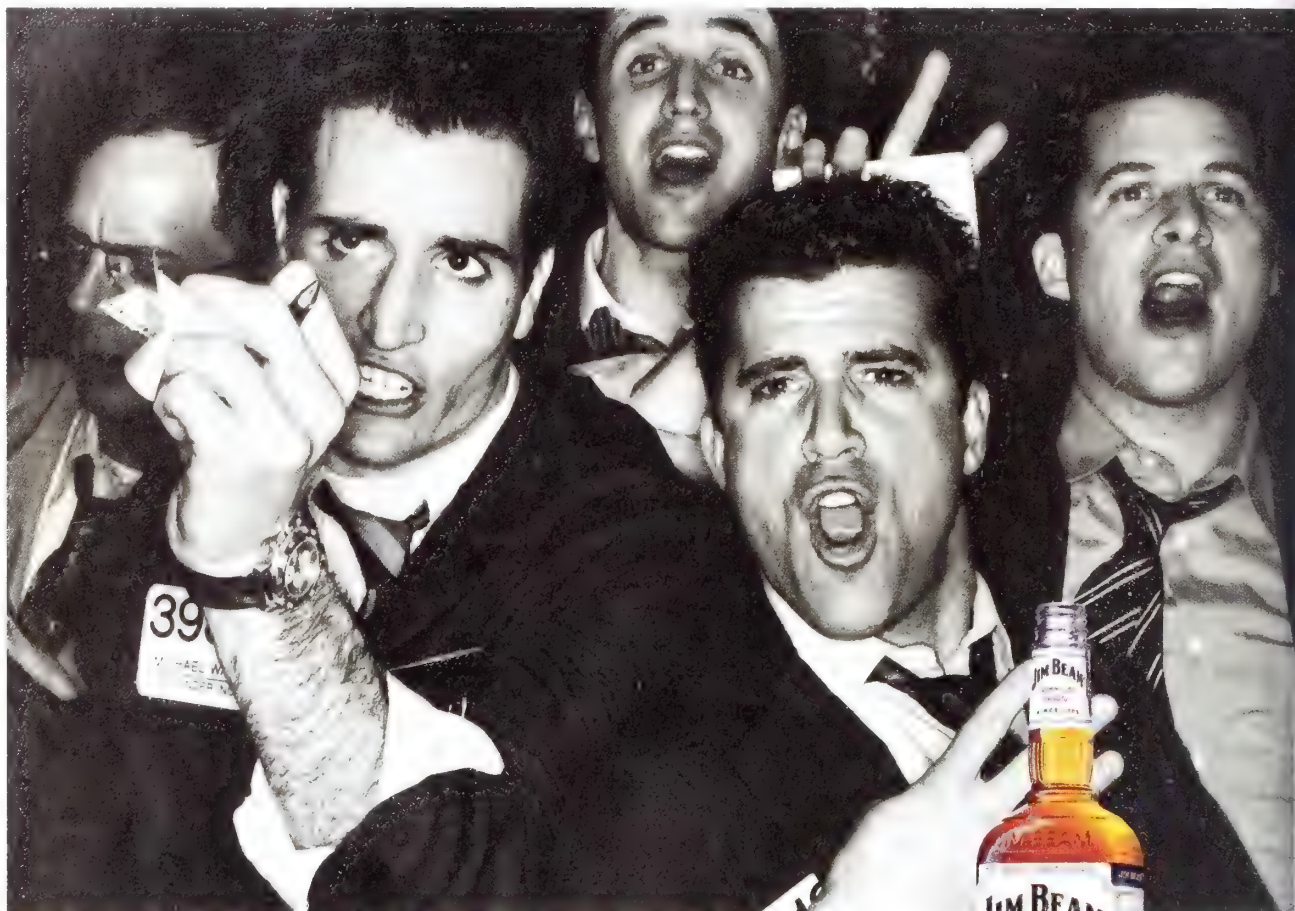
IBM designs scalability into all our Web technology – hardware and software. So if your site gets 100 million hits when you expected only 50 million, you can adapt quickly. As we've done with some of history's most heavily trafficked Web sites: the 1996 Atlanta Olympic Games (189 million hits/17 days); the U.S. Open Tennis Championships (70 million hits/14 days) and Deep Blue™ (74 million hits/9 days).

Scalability is just one e-business problem we can help you solve. We've helped thousands of businesses move their core processes to the Web to lower costs, improve customer service and actually sell things. To keep up with the latest IBM solutions, bookmark www.ibm.com/e-business. Or call us at 1 800 IBM 7080, ext. NC33.



Solutions for a small planet™

A Spirited Asset in the Fortune Brands Portfolio



Get in touch with your masculine side.

Fortune Brands is keeping shareholders in high spirits with great distilled spirits brands like Jim Beam. A market winner. The world's #1 Bourbon. The recipe for our growth? Two parts great brands. One part new products that tap into new trends. A twist of innovative marketing. And a thirst for success. Investors are refreshed by the strength and taste of Fortune Brands ("FO" on the NYSE). No wonder we're the toast of Wall Street. Fortune Brands is the perfect mix: great people and a portfolio of premier consumer brands that also includes Knob Creek, Titleist, Cobra, FootJoy, Moen, Master Lock, Day-Timer, Swingline and Kensington.



**FORTUNE
BRANDS**

*Building a Fortune Around
the World.*

www.fortunebrands.com or call 800 310-5960.

www.jimbeam.com



SAN FRANCISCO

POPULATION* +0.4%

JOBS** +2.9%

UNEMPLOYMENT***

1994 5.9% 1998 3.1%

►Technology and media sectors, as well as financial services, produce net migration to city.

CREATIVE ENERGY: PUBLICIS EXECUTIVE V-P HAYMAN (IN BLACK) AND STAFF IN THE COMPANY'S SAN FRANCISCO OFFICES

own throughout the urban economy manufacturer, every financials colossus, and each tiny outfit supports a dense network of suppliers and specialized services out the city and its surrounding metropolitan area—from banks, and consultants to transporters, cleaning services, and temp-workers. Employment rises, in-ump, and poverty ebbs.

new wealth helps drive home-

ship, which solidifies communities. The on of all households that own their home has risen ghtly in central from 48.4% in 49.9% in the quarter of this at that measure a broad iment in the available housing increase in the of middle- and income families e making their in inner-city rhoods.

The Abyssinian ment Corp., a profit community organization l by the famed Abyssinian Bap- arch in New York City's Harlem, g funds from the Enterprise tion to convert 49 abandoned tones into moderate-income all of them contracted to sell for 0 to \$238,000. It's also set to arket-rate homes, priced up to 0, later this year; initial news- ds have drawn 2,000 inquiries. ne demographics turn upward, ate America appears to be re- setting the long-neglected commer- ver of urban areas. Harvard's

Porter estimates that households in America's inner cities have more than \$85 billion a year in retail spending power. And community capitalism is thriving in many areas as major banks, foundations, local activists, and governments learn to work with one another to create housing and rebuild commerce. "Ten years ago, everything was tremendously fragmented and balkanized," says Bruce Katz, director of the Brookings Institution Center on Urban & Metro-

some cities, such as Miami. Welfare reform could prove an enormous fiscal drain on local governments that already are underfunding inferior school systems. Gangs and drugs plague urban America, despite a remarkable 20% drop in violent crimes in the nation's 10 largest cities from 1990 through 1995.

While a generation of pragmatic mayors, such as Rudy Abramson in Louisville and Stephen Goldsmith of Indianapolis, have been lauded for reining in municipal budgets and improving city services, damaging urban politics persist. Dense government regulations, hide-bound union agreements, periodic corruption scandals, and patchwork tax systems continue to discourage investment and slow recovery.

The durability of cities' key role in the information economy is crucial. If urban areas flourish, they create powerful, efficient engines of growth. Jane Jacobs, the iconoclastic urban thinker of the postwar generation, captured it best:

"Whenever and wherever societies have flourished and prospered rather than stagnated and decayed, creative and workable cities have been at the core of the phenomenon; they have pulled their weight and more. Decaying cities, declining economies, and mounting social troubles travel together. The combination is not coincidental." When cities win, the nation does, too.

By Christopher Farrell in St. Paul, with Peter Galuszka in Louisville, Ann Therese Palmer in Chicago, Amy Barrett in Philadelphia, and bureau reports

CHICAGO

POPULATION* -0.5%

JOBS** +1.9%

UNEMPLOYMENT***

1994 6.6% 1998 4.9%

►Immigrants boost entrepreneurship, and rebirth of manufacturing abates poverty.

DATA: LABOR DEPT., CENSUS BUREAU, BUSINESS WEEK

*AVERAGE ANNUAL RATE, 1994-1996, SEASONALLY UNADJUSTED **AVERAGE ANNUAL RATE, 1994-1997, SEASONALLY UNADJUSTED

***FEBRUARY DATA, SEASONALLY UNADJUSTED

TALENT POOL: MAKING SIGNS AT TRITON INDUSTRIES IN CHICAGO



politan Policy. "Now, people have been at it for a while, they have been innovating, and they tend to collaborate."

Immigrants are rebuilding communities, too. Some 13.4 million newcomers have arrived in this country between 1981 and 1996—the greatest influx since the turn of the century. Concentrating in "gateway" cities such as Boston, New York, and Miami, they are sinking deep roots in neighborhoods by buying homes, shopping at the local grocery store, and, perhaps most importantly, setting up their own businesses. "Immigrants are the steroids of economic

I know which but to r



SHE'S THREE KEYSTROKES AWAY FROM BRINGING YOUR NETWORK TO ITS KNEES. UNE
NETWORK ASSOCIATES FOR THEIR NETWORK SECURITY AND MANAGEMENT. IF SO, BRE
SHORTNESS OF BREATH. TO FIND OUT MORE ABOUT NETWORK PROTECTION, VISIT WWW.NA

push.

N
e
t
T
o
o
l
s

the ones that give me access

McAfee Total Virus Defense

all your confidential files. }

PGP Total Network Security

Sniffer Total Network Visibility

McAfee Total Service Desk

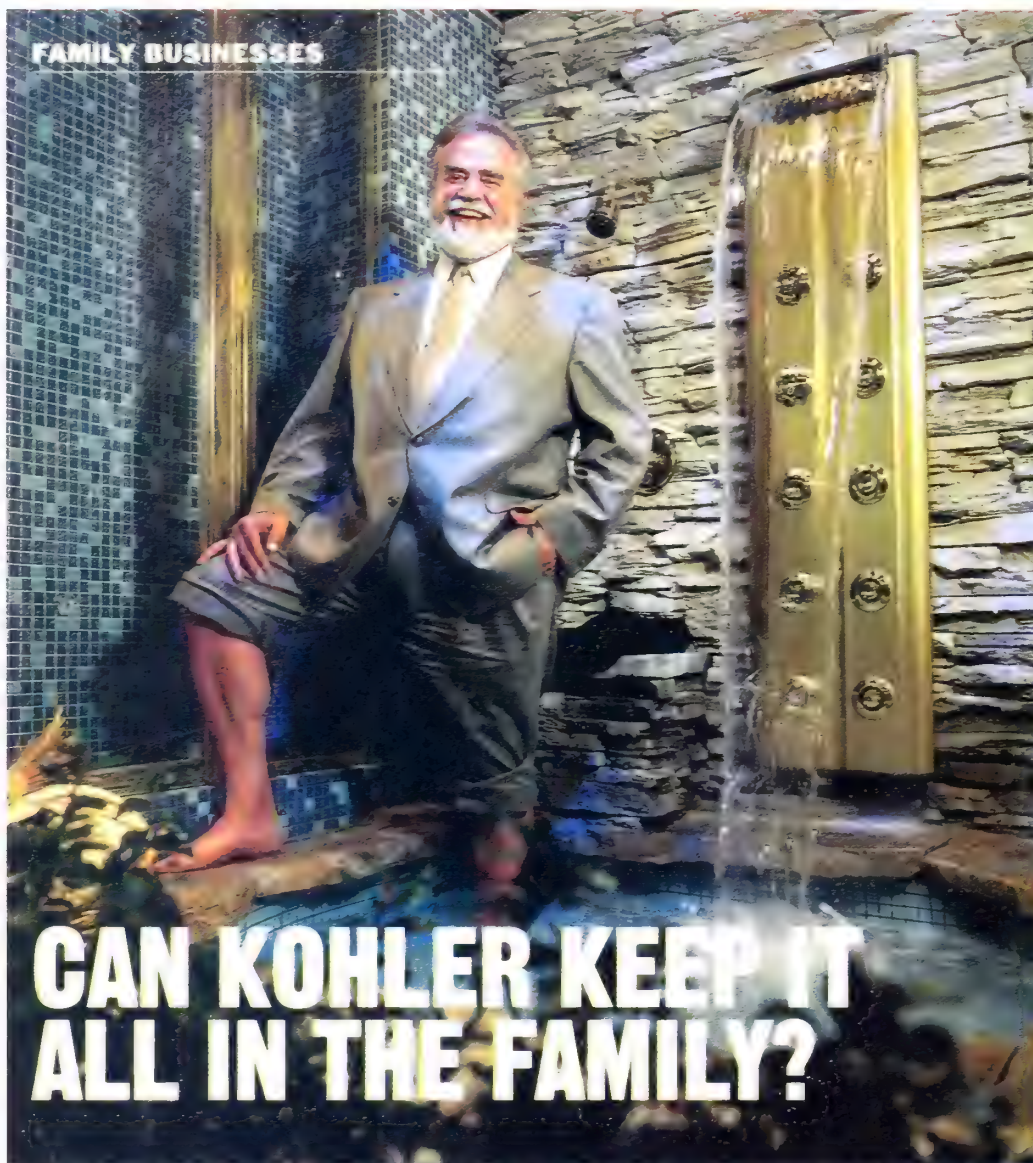
COURSE, YOU'RE PART OF THE 80% OF THE FORTUNE 100 WHO HAVE CHOSEN

. IF NOT, IT'S PROBABLY NOT HER LOOKS GIVING YOU

ALL 1-800-332-9966, DEPT. 1935. OK, NOW EXHALE.

 **network**
ASSOCIATES
Who's watching your network

FAMILY BUSINESSES



CAN KOHLER KEEP IT ALL IN THE FAMILY?

The plumbing fixtures king wants to buy out dissident shareholders—at a price they consider absurdly low

The village of Kohler, Wis. (pop. 11,900), seems like a community frozen in a peaceful past. You see it in the immaculate, tree-lined streets and the aging foundry and pottery, where Kohler Co.'s workers have turned out toilets and bathtubs since the turn of the century. Aside from the introduction of robots into the factory in the 1970s and the transformation of a former workers' dormitory into a hotel, little appears to have changed since 1916, when John Michael Kohler moved his operations up the road from Sheboygan to create a company town amid

rolling farmland about an hour northwest of Milwaukee.

Yet some thorny modern problems are intruding on this placid landscape. Closely held Kohler, with record 1997 sales of \$2.2 billion and earnings of \$88 million, is mired in a messy ownership squabble. On one side is Herbert V. Kohler Jr., 59, the visionary company chairman and grandson of the founder, and his immediate family, who control an overwhelming majority of Kohler's shares. Opposing them are some dissident family members and an angry group of outside investors, including one big fund manager who holds a few of the thinly traded and richly priced shares (page 102).

Herbert's success in buying out those other shareholders—at an offering price they consider absurdly low—will determine how one of the largest and most innovative family-run companies enters the

KOHLER: *The chairman may have to take on a lot to finance his plan*

21st century. The buyback plan calls for cashing in the 170 or so nonfamily shareholders, who control 4% of the stock, for \$50 a share—nearly a 50% discount to the \$100 a piece that was fetched by a sale of 30 shares by one of Herbert's cousins to the company just days before the buyback terms were set.

About 20 other family members will be offered the option of taking cash or a mix of voting and nonvoting shares; if they decline and later want to sell their shares, they would have to sell them back to the company. The end result would be to keep the company firmly in the hands of Herbert, his sister, Ruth Young Kohler, and a cousin, John Michael Kohler III. Herbert and Ruth control about 75% of the shares directly and through estate trusts, including that of their recently deceased brother, and through a charitable foundation.

With such control, the plan triggered the buyback proposal? Herbert says the plan has been in the works for several years. In the face of the lower stock price, he holds down estate tax

But his primary concern was a loss of privacy. He feared that the sale in the last year of several blocks of shares at eye-popping prices would induce relatives to sell to outsiders. By limiting the number of shareholders, Kohler can continue to avoid federal reporting requirements. And remaining private, Herbert argues, allows Kohler to take long-term investment positions; otherwise, "we would be focused on what was needed to keep quarterly earnings moving."

SOGEN SUIT. The plan is so controversial that even Herbert anticipated that eventually all holders outside his immediate family could vote "no" at a special meeting scheduled for Apr. 24. Under Wisconsin law, they are allowed to seek a second appraisal of the shares' value or to ask for a court-appointed arbitrator if there's a big discrepancy between

**ANDERSEN
CONSULTING:
Number one
in billings.**

Forbes Magazine, November 10, 1997

**DELOITTE
CONSULTING:**

**Number one in overall
customer satisfaction.**

Among "Big Six" Systems Integrators, Computerworld, July 28, 1997

There are many ways to measure success.

The strength of your bottom line is one;
the strength of your relationships is another.

At Deloitte Consulting, we're known more for our working style
than our size. And that's fine with us. More importantly,
it's fine with our clients. Because they've seen
firsthand that our style delivers substance.

Being flexible and collaborative, as opposed to rigid and arrogant,
gives us the ability to generate a tremendous degree
of employee buy-in to changes at hand.

Which helps us transfer the knowledge and skills your people
will need to get the best possible returns from any new
strategy or technology. And to keep those improvements
from unraveling after we leave.

For results you can count on today.
And build on tomorrow.

A very different approach. For very different results.

**Deloitte & Touche Consulting
Group**

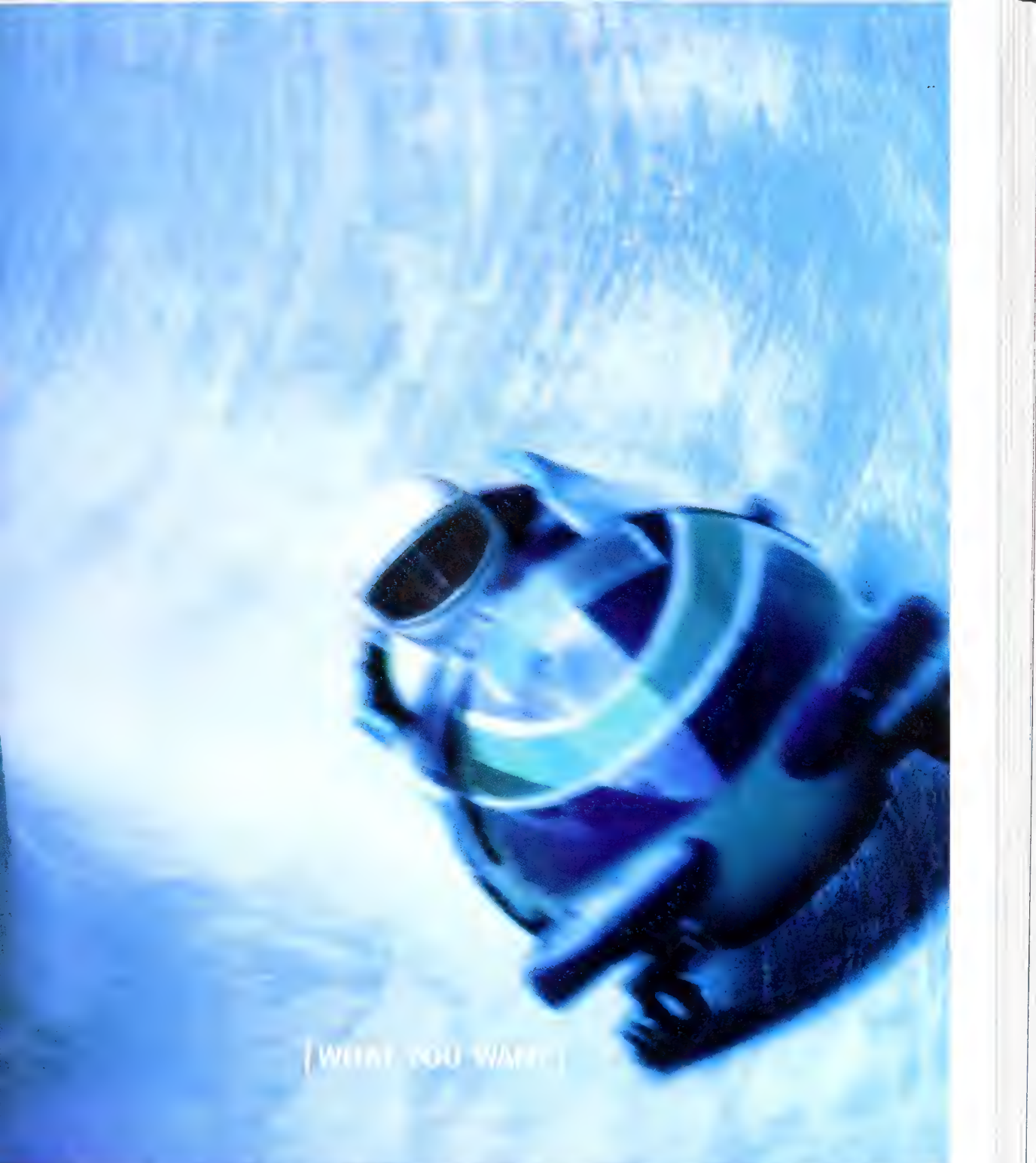
PROCESSING INFORMATION



[WHAT YOU WANT]

E-commerce is booming. And card-swiping customer demand is exploding. To stay competitive, your network has to process more quickly than ever before. Enter, our Cheetah® disc drive. At 10,000 RPM, it's the world's fastest. In fact, it's 40% faster than almost anything else out there. Which means your customers can transact at record-breaking speeds, while your network is poised to handle whatever's around the next curve. It's just one of the ways Seagate hardware and software can help you analyze and protect your information. So you'll have it, the way you want it. To find out more, visit us at www.seagate.com/b

Seagate, the Seagate logo, the tagline, Seagate Backup Exec and Sidewinder are registered trademarks or trademarks of Seagate Technology, Inc.



[WHERE YOU WANT.]

 **Seagate.**

Information, the way you want it.

The buyback offer: \$52,700 apiece for shares that—just days earlier—were selling for \$100,000

that value and the company's figures.

One holder, SoGen International Fund Inc., a longtime investor in closely held companies, has filed suit in federal court in Milwaukee to block the plan. "This is outrageous," snaps Elizabeth Tobin, associate portfolio manager of New York-based SoGen, which bought 63 of its 80 shares in early March from a Kohler family member at \$103,600 apiece. SoGen complains that it is being disenfranchised by the cash-out requirement.

Julilly Kohler, one of Herbert's cousins, who controls 330 shares with her sister, says she'll fight the buyback—and insists it needn't have come to this. "If they had paid decent dividends"—the shares typically yield less than 1% of market price—"or made reasonable buyback offers, it would have gone a long way to keep people on board."

The plan could prove costly for Kohler. If, say, 900 shares are bought back at the offer price, it would cost \$47 million, which Kohler can easily afford. If the value on the shares is deemed too low, however, Kohler will have to ante up much more, take on more debt, and, perhaps, defer capital spending on some projects. It might also, outside lawyers say, increase the valuation of stock held in the charitable foundation, which would force it to increase donation levels. Could that lead to a public offering? "It ain't going to happen," insists Herbert.

"GREAT MARKETER." To understand the Kohler squabble, one must first understand how the company got where it is. Kohler owes much to its hard-driven chairman. A stout and cheerful man, Herbert took over from his father in 1972 and soon faced a key decision. With annual sales of around \$300 million, Herbert gambled on a \$10 million investment in an all-cast-iron-molding line. The resulting leap in quality vaulted Kohler into the No. 1 position in U.S. kitchen and bathroom plumbing fixtures, with a 25% market share in North America.

Kohler's products include the \$4,100 Body Spa—a combination shower/waterfall/foot bath—and an Artists Editions line of high-style bathroom products. Herbert's bold use of colors and innovations in toilets and showers have brought cachet to the entire industry. "He's a great marketer who has created a very strong image at the top end," says Emmanuel A. Kampouris, chairman of American Standard, Kohler's chief rival.

But Herbert has taken Kohler way

beyond plumbing. The company is a leading supplier of high-end furniture, through its Baker line. An avid outdoorsman and golfer, Herbert is eagerly awaiting the July opening of his latest big project: a Pete Dye-designed golf course stretching along two miles of Lake Michigan shoreline, near his American Club luxury hotel. Herbert says all Kohler's products are designed with a certain aesthetic in mind—to "improve your sense of gracious living."

There seems little doubt that Kohler's strategy has not been to maximize short-term earnings. Heavy investments in products and locations—it has spent \$70 million over the past three years on fac-

tories and joint ventures in China—conservative accounting have kept eating margins in single digits. That's low those of competitors American Standard and Masco.

This isn't the first time Herbert moved to stem the dilution of his ownership. Twenty years ago, he initiated a 1-for-20 share split and offered \$8,200-per-share cashout. Those who stayed in, Herbert notes, have enjoyed a 10.1% compounded annual return—then—slightly below the overall market—at the new offer of nearly \$8. But, of course, they'd be doing much better at \$100,000 a share.

By Richard A. Melcher in Kohler

ONE FAT SHARE, ONE FAT HEADACHE



Kohler Jr. seeks to cash them out at \$52,700. Over the past two decades, Kohler family shares have often been offered back to the company, then gone onto the market. To buy them, you go through one of market makers across the U.S. Prices are posted

on an electronic

It's hardly a stock for the casual investor. Shares in Kohler Co. have traded at more than \$100,000 apiece in recent years among just a handful of players—hardly a liquid market—and they pay a scant dividend of less than 1%. So what's the attraction?

Investors outside the family who have snapped up some of the shares as they've quietly come onto the market are mostly betting on long-term price appreciation, reflecting enthusiasm for Kohler's strong positions in the plumbing and furniture industries.

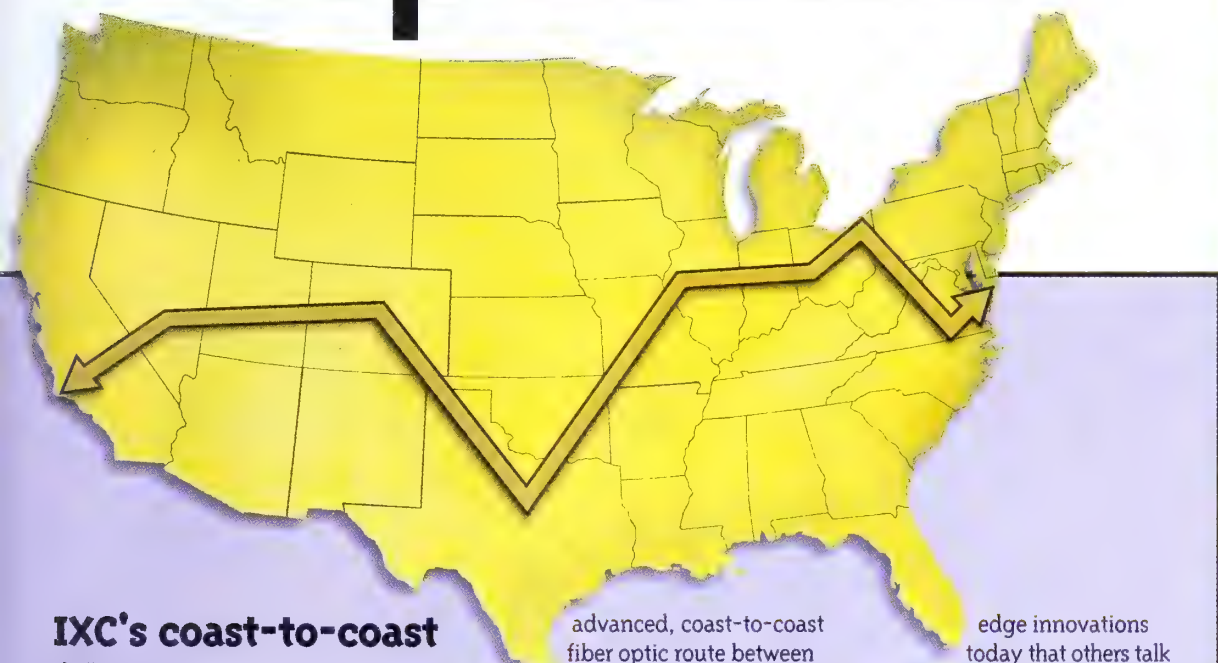
But now those investors are witnessing the perils of scooping up thinly traded shares, as Herbert V.

bulletin board with those of other thinly traded companies. Until a flurry of trades this year, just 25 Kohler shares had changed hands over five years.

Chicago investor Patrick A. Martin, whose family has bought into once-private companies such as Fort Howard Paper Corp., holds 18 shares, the most recent purchased in 1981. "Six months ago, we were very happy shareholders," he says. With the bulletin board now listing Kohler shares at about \$54,000, Martin and most non-family holders are anything but content.

By Richard A. Melcher in Kohler

National. Global. Xceptional.



**IXC's coast-to-coast
fiber optic network.
The first in a decade,
the most advanced
in the world.**

Leave it to IXC Communications, Inc. to do what no company has achieved in the last 10 years: deliver a fiber optic link across the entire United States. Completing this segment of IXC's technologically advanced, digital network is a feat worth celebrating. But the significance of this historic event doesn't stop there.

Extending our nationwide digital network with this

advanced, coast-to-coast fiber optic route between Los Angeles and New York means IXC is firmly positioned as the premier information delivery solutions provider for the global communications market. With superior network management and engineering expertise, and the latest in fiber and optical transmission technologies supporting all packetized applications, IXC is now positioned to take its customers into the next century.

Using a state-of-the-art SONET/Dense Wave Division Multiplexing transport architecture, supporting ATM, frame relay and Internet applications, the IXC network delivers high quality, cutting

edge innovations today that others talk about for tomorrow.

The service behind IXC's unprecedented communications technology is world class, as well: exceptional provisioning and back-office support, 24-hour monitoring, continuous self diagnosis, and warning systems to protect transmission integrity around-the-clock.

Want to know more? Call your local IXC representative or visit our website at www.ixc-comm.com or call 1-800-984-9253.

Across the country, the advanced network you need.





*Connect time charges may apply.

© 1998 Microsoft Corporation. All rights reserved. Microsoft, Outlook and Where do you want to go today? are either registered trademarks or trademarks of Microsoft Corporation in the United States and/or other countries.



Work is easy.

right information
to the right people
at the right time.

From: Microsoft Office 97
Sent: The right time
To: The right people
Subject: The rest is up to you.

Microsoft Office 97 contains all the tools for you to work more effectively with everyone in your organization. Go ahead and open up your Outlook™ e-mail and drop in any Office document. Include a link to a Web site or to another document. Then add your comments, and send it off to the team. Now, anyone who gets your message can instantly scan the first three lines without opening it—so there's incentive to get to the point. Or you can simply post your information to the corporate intranet where all concerned parties can look at it, comment on it, add to it—just a couple of clicks and Office makes your document ready for the Web. And, since nothing beats face-to-face interaction, Office can help you pull meetings together by comparing everyone's schedule and automatically finding the first available time. So no matter how you're working or who you're working with, Office 97 helps you do it more effectively. For more help, and to find out about the free* online product enhancements and assistance available through Microsoft Office Update, visit www.microsoft.com/office

Microsoft®

Where do you want to go today? www.microsoft.com/office

EDUCATION

SCHOOL FOR SCANDAL?

Computer Learning Centers may be fiddling around with the math

Vocational schools don't normally quicken investors' pulses. But over the past year, eager buyers—including Fidelity Investments—couldn't get enough of the shares of Computer Learning Centers (CLC), a chain of 25 schools that relies almost exclusively on government funding in the form of student aid.

CLC has been growing rapidly: Enrollment has more than doubled since 1996, to over 10,000 students. Since its initial public offering in July, 1995, the stock soared—from a split-adjusted \$2.67 to 39¢ on Mar. 10. Last year, CLC reported revenues of \$97 million and earnings north of \$9 million—making for a price-earnings ratio of 70.

IN THE SPOTLIGHT. Now, CLC has abruptly dropped back to earth. The Illinois attorney general filed a fraud suit on Mar. 10, alleging that CLC misrepresented the quality of its education, placement rates, promises of high earnings, and starting salaries at its Schaumburg (Ill.) campus. State officials then ordered the school to suspend its marketing and enrollment for 30 days. Several other state attorneys general are also taking a close look at CLC's business practices. Three weeks after the Illinois action, the U.S. Education Dept.,



SPRING BREAKS: A former employee says CLC admitted unqualified students to boost enrollment

according to a letter sent to the company, questioned CLC's student data and put it on "heightened cash-monitoring status." That means CLC will continue to receive government funds—but only after providing evidence that those funds have indeed been credited to students' accounts. CLC's stock, meanwhile, has been hovering around 12¢. Luckily for Chairman Harry H. Gaines and CEO

Reid R. Bechtle, they have sold a major portion of their stock over the past two years.

"We don't believe anyone in our company has done anything unlawful," says Bechtle. "And we stand by the fact we provide excellent training to the students that attend our schools, and excellent job placement to our graduates." After responding to several questions from BUSINESS WEEK, Bechtle declined to answer additional questions.

MORE DEFAULTS. Vocational-school abuses have been a recurring problem. In the late 1980s, a series of trouble spurred a crackdown by the Education Dept. But problems continue. In 1996, a \$2.6 million verdict in San Diego was entered against ITT Educational Services Inc., which was found

able for deceptive marketing and tactics. The case is being appealed.

Even though taxpayers must pick up the tab for students who default on their loans, oversight and enforcement by the Education Dept. and the Accrediting Council

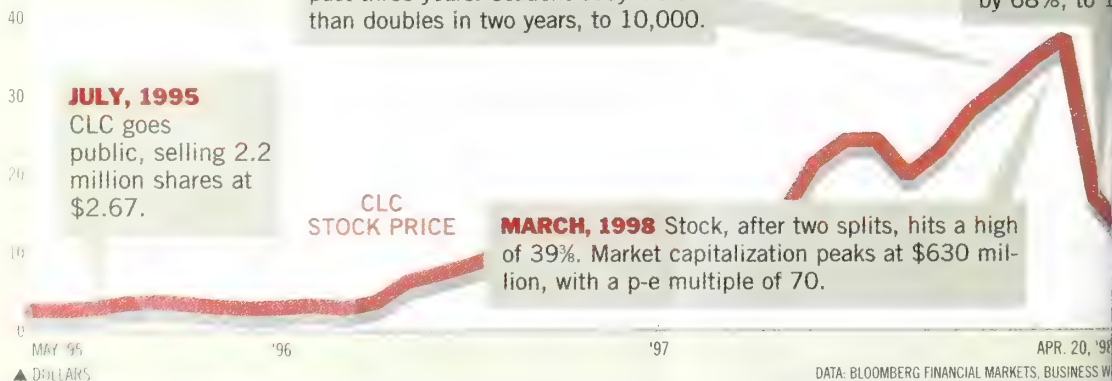
MARCH, 1998

An Illinois consumer fraud lawsuit is filed against CLC by Illinois Attorney General, alleging misrepresentation of the quality of education. It questions CLC's practices. Stock price falls 68%, to 12¢.

JANUARY, 1998 CLC expands rapidly, buying three schools in the past three years. Student body more than doubles in two years, to 10,000.

MARCH, 1998 Stock, after two splits, hits a high of 39¢. Market capitalization peaks at \$630 million, with a p-e multiple of 70.

CLC: FAST RIDE, FAST SLIDE



somewhere between steel strings and skins
there's brass.

over brass and ivory lingers
a cinder-gray haze.

and when that ensemble comes together
in perfect harmony.

they make up a color called

BLUES.

CANON CONNECTS you to color laser technology so advanced, it goes beyond primary colors to capture subtle colors others struggle to match. Even a color as deep as Blues. It's what has set us apart since we introduced color laser copying eleven years ago. For more about our color laser copiers and printers, call 1-800-OK-CANON anytime. Web site <http://www.usa.canon.com>.



Canon Laser Color. Its only competition is reality.

Canon

The Corporation

for Independent Colleges & Schools (ACICS) is very weak, says one educational consultant, adding: "Most states don't have the manpower or resources to adequately monitor the educational quality of schools they license." Education Dept. officials claim they maintain the appropriate oversight.

By all appearances, CLC's prime strategy has been rapid growth. According to former employees, CLC executives are zealous in enrolling new students. In sworn testimony in a private lawsuit for wrongful termination against CLC in 1996, the school director for CLC's San Francisco school, Jo Ann Meron, said there were several months when the school enrolled students who hadn't completed their required General Equivalency Diploma (GED) exams, in apparent violation of federal law. That same year, John Rogers Educational Consulting Services, which was asked to examine CLC's Alexandria (Va.) school, wrote in a report that "the campus does not adhere to its admission standards, often waiving these standards for students who fail to meet them."

"MISLEADING." It appears that this practice might be continuing. Last September, an evaluation of CLC's Laurel (Md.) campus by the ACICS noted that several CLC students did not have high school diplomas or General Equivalency Diplomas on file. Several students at Laurel confirm these policies: "The admissions process was slightly misleading," says one student who asked not to be named. "It was a sales pitch, not a screening. I've seen people admitted here who can't tie their shoes." Says Bechtle: "As far as I know, we have received no complaints from students in the state of Maryland."

The Education Dept. recently sent a letter to the company saying it was scrutinizing CLC's dropout rates as well. It requested that CLC submit the names of students who dropped out of school in the past two years, including their Social Security numbers, and detailed reports of these students' attendance dates. Education's inquiry into CLC's dropout rates may indicate that it suspects CLC may be delaying tuition refunds to students who drop out. Auditing reports dating back to 1994 have noted instances of late refunds at several different campuses. The ACICS' eval-

uation of CLC's Laurel campus recently noted that when some of these students dropped out of school, the company refunded only part of their tuition. According to the ACICS, all of the tuition should have been refunded, since some of the students—those who had no GEDS—shouldn't have been admitted in the first place.

If true, this could artificially inflate



TEXTBOOK CASE: Former executive Francis says CLC sold photocopied, typo-ridden manuals for \$750.

revenues, suggests Abe Mastbaum, chief financial officer of American Securities in New York and a certified public accountant who has examined a number of CLC's books. He says that "deferred revenues"—unearned tuition on CLC's books due to the industry practice of booking revenues up front—"is higher than those of its peers." Adds Mast-

baum, "That leaves one looking for a corresponding asset on the balance sheet. It is not readily apparent what or what that asset is."

CLC execs deny this is a problem. Chief Financial Officer Charles Costello told analysts in November: "We have a school today in which we would not have any dollars that would go beyond [the required time period for refunds].... [It's] a single situation today."

There are questions about other aspects of CLC's revenue. According to publicly available auditing reports, information from former CLC employees and current students, and internal documents, CLC may be serving overcharging students on book prices. Federal and state laws, including California's Maxine Waters Reform & Student Protection Act, seek to protect students from "fraudulent" practices. California act states that the amount charged for each book shall not exceed the [book's] market value."

TEXTBOOK CASE. Yet according to Les A. Francis Jr., former school director and education director at CLC, the school charged students \$750 for photocopied manuals for its computer working classes. "This is a manual poorly written and riddled with typographical errors.... In an open market, a book like this might sell at Compuserve for \$49.95," he says. "But the only way I don't think even the USA would sell it."

Federal and state laws stipulate that book prices must be itemized, so students know exactly what they are paying. A student who resigned up at CLC's San Francisco campus and who asked that her name not be used, provided documents to BUSINESS WEEK showing a signed contract with the school. The space for book prices had been left blank.

Bechtle maintains that the school never charged more than \$110 for an internally produced book. But he does admit that several CLC schools do break out book prices in their costs.

Cosgrove's—and Bechtle's—despite notwithstanding, the stock market has already rendered a harsh verdict on CLC. Now, it will be up to the company to demonstrate that it isn't just a tarnished vocational school that has put profits ahead of education.

By Debra Sparks in New York

Regulators have been looking into instances of delayed or partial tuition refunds owed to students who dropped out

Clarify is helping Toyota use customer service
to rev up sales.

Carole Pedriana, National Manager, New Era Business Project



Toyota and Lexus vehicles are renowned for their quality. Carole Pedriana's charge is to ensure that the same level of quality is built into each call center interaction. "Our call centers are a very special touch point. Clarify lets us provide personalized service from the first inquiry through purchase, delivery and ongoing vehicle service. Taking good care of our customers makes them advocates for life. Service leads to loyalty. And loyalty translates to sales. That made Clarify a wise investment for us. They believe in building long-term relationships just like we do. And they're also absolutely passionate about quality. That's talking our language."



CLARIFY
Sales and Service Solutions

1-888-CLARIFY
www.clarify.com

Clarify's front office solutions automate processes in sales and marketing, customer service, field service and logistics, quality assurance and help desks.

THESE APPOINTMENTS CAN GO WHERE THERE ARE NO SCHEDULES.



- New standard leather-wrapped steering wheel with integrated audio/climate controls • Heated exterior mirrors with new integrated puddle lamps
- MACH™ AM/FM CD/cassette audio system • Standard SOHC V-6 or optional V-8 • Standard Second Generation dual airbags*
- New easy-open liftgate • SecuriLock™ anti-theft system



FORD EXPLORER LIMITED



*Always wear your safety belt and secure children in rear seat.

1-800-258-FORD or www.ford.com

While a good idea in theory,
reloads are wide open to
abuse, allowing
executives a hedge that
shareholders don't get



EXECUTIVE COMPENSATION

THE OPTION YOU CAN GET IT

"reloads" work—and why they have their critics

They're the gifts that keep on giving. Reload, or "restoration," stock options are gaining favor as a way for companies to boost executive ownership. Another likely reason is hot: The best-known recipient of such options is Sanford I. Weill, CEO of Travelers Group Inc.—is one of Corporate Week's wealthiest CEOs. In 1997, he received BUSINESS WEEK's Executive Pay award with compensation of \$230.7 million, of which \$220 million came from the exercise of reload options. Weill is one of BUSINESS WEEK's 10 best-paid CEOs since 1992. "I love reload options," exults Weill.

What, exactly, is a reload, and how does it differ from a regular stock option? A normal option disappears when it is exercised, or turned in for stock. But a reload, in its simplest form, is a bonus of stock options that a company gives its executives when they convert existing options into shares. The goal is to get executives to exercise options early and hold them as shares so that their wealth is more tightly linked with that of stockholders. Used as a reward, reloads effectively give executives an automatic refill from the options piggy bank.

While a good idea in theory, in reality reloads—like many other quirky elements

of executive pay—are wide open to abuse. By encouraging an executive to lock in profits earlier than he or she might have done otherwise, reloads take some risk out of the pay process—the risk that stock-based pay was supposed to create in the first place. Although the reload is always for fewer options than the original grant—and executives must "buy" those options by tendering shares they own—it allows them a hedge that shareholders don't get.

EXECUTIVE PRIVILEGE. What's more, reload decisions occur without the input of the compensation committee on the board of directors. Unlike regular option grants, which are awarded by the board every year or two to reward a job well done or provide incentive to improve performance, with reloads, the board only makes a decision once—at the original grant. The reloads happen whenever the executive thinks they are appropriate. "Fundamentally, you are depriving the compensation committee of discretion," says James E. McKinney of pay consultant Hirschfeld, Stern, Moyer & Ross Inc.

As a result, reloads are controversial. "The greatest thing to happen to stock options since they were invented is the reload," says Frederic W. Cook, president of pay consultant Frederic W. Cook & Co. Counters Alan M. Johnson, managing director at Johnson Associates: "They're horrible."

First used by Norwest Corp. in 1988, reloads were included in 17% of new stock option plans in 1997, up from 14% in 1996, according to the Investor Responsibility Research Center (IRRC). Besides Travelers, companies such as Bell Atlantic, Toys 'R' Us, Sara Lee, and The McGraw-Hill Companies, parent company of BUSINESS WEEK, have added them to their executive pay arsenal.

Until now, reloads haven't been the focus of much investor outcry. But that could change: A 1996 survey by the IRRC showed that nearly 50% of institutional investors said they might oppose a plan. "We're generally not in favor of them," says Michael P. McCauley, corporate affairs manager at the Florida State Board



AS COMPAQ AND WINDOWS NT MOVE FORW

	Compaq ProLiant 7000	Sun Ultra Enterprise 450
Price/Performance	\$39.25/tpmC	\$56.60/tpmC
Total System Cost	\$485,618.00	\$654,330.46
TPC-C Throughput	11,055 tpmC	11,559 tpmC
Operating System	Windows NT Server 4.0, Enterprise Edition	Solaris 2.6
Database Manager	Microsoft SQL Server 6.5, Enterprise Edition	Sybase Adaptive Server Enterprise 11.5.0.1

ALIGN YOURSELF WITH WHAT'S BEHIND?

clear. It's out there. It's visible to the naked eye. The future of enterprise computing is not just in scalability, manageability and reliability, but also in a dramatically lower cost of ownership. A reality no one understands better than Compaq and Microsoft.

You can see it in the chart, which shows what a Compaq server running Windows NT® can do. At a price/performance up to 31% less than the Sun Solaris UNIX system. And while providing built-in underlying services today's distributed applications require.

Last year, shipments of Windows NT Server increased by over 80%. And Compaq, the reference development platform for Windows NT, accelerated its lead as the world's #1 server provider.

Enterprise computing is your lifeblood. Live long and prosper. For complete details on Compaq and Windows NT visit www.compaq.com/products/serversolutions/.

Microsoft®

COMPAQ

© Compaq Computer Corporation. All rights reserved. Compaq registered U.S. Patent and Trademark Office. ProLiant is a registered trademark of Compaq Computer Corporation. Microsoft and Windows NT are trademarks of Microsoft Corporation. Published TPC-C results as of 2/23/98. TPC and TPC-C are registered trademarks of Transaction Processing Council. All other products are trademarks or registered trademarks of their respective companies.

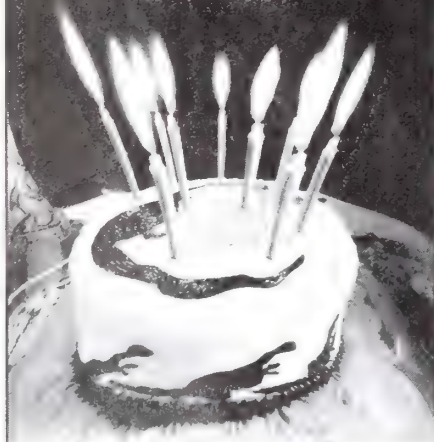
Get the latest advertiser info.

Check out

BizLink
www.businessweek.com/BizLink/

on page 178

To a six-year-old having an asthma attack, this is like blowing out a forest fire.



1-800-LUNG-USA

Because...When you can't breathe, nothing else matters.®



AMERICAN LUNG ASSOCIATION

www.lungusa.org

The Corporation

of Administration, a \$74 billion pension fund. Reloads "convolute the whole [pay] plan, and there are no restrictions."

Here's how it works. Say an executive owns 1,000 shares and holds 1,000 options granted at \$10, with a 10-year life. Five years later, the stock has risen to \$20. So the options have a gain of \$10,000. Now, a three-step transaction occurs: The executive uses 500 of his 1,000 shares—also worth \$10,000—to exercise the 1,000 options. Those are then converted back into 1,000 shares. His reward for changing all his old options into stock is 500 new options set at the new market price of \$20 with a five-year term.

Now, the executive holds 1,500 shares and 500 new options instead of 1,000 shares and 1,000 options. If the stock price falls back down—to \$10, for example, putting the options under water—the 1,500 shares are still worth \$15,000, vs. the \$10,000 without reloads. "He has dividends and voting rights," says Cook, "and he has insulated himself a little bit to a stock price decline." Also, he still has options to capture future jumps.

Reloads give executives the same tax advantage that they get from converting normal options into shares. Although they must pay ordinary income tax on the original options profit, once the options become shares, any future appreciation will be taxed at the much lower capital-gains rate. The 1997 lowering of that rate means that if the shares are held for at least 18 months, the taxes could be 19 percentage points lower.

BLOOD OATH. The complexity of reloads makes them vulnerable to different interpretations. The Financial Accounting Standards Board, for example, considers reloads new options. But Travelers Group says that all of Weill's 7.1 million existing reload options—and many of his 14.8 million shares—have come from one original grant of 3.6 million options in 1986. The stock has split six times. But how can the options still exist, since the original term was for 10 years? As Weill exercised his options, many of his reloads magically gained a new lease on life: Their terms were extended for another 10 years when

the original options were exercised rather than expiring in 1996, the term his options last until 2002 and 2003. a Travelers spokeswoman: "[Weill] a firm believer that we should all be large owners as we can be."

There is an end in sight. Travelers changed its policy in 1995, so the Weill's reload options is set to expire 2003. Unlike many executives, how

Weill is not able to the money and run the company. Senior management and the board have agreed, "blood oath" in which they promise not to sell any stock until they leave the company. "I don't eat his own cooking," says compensation expert Graef S. Crystal. "I just wish he would stop playing so many reload games." At some companies, however, the stock isn't a requirement. So the CEO lets the executive cash out whenever he or she wants and still have the option to make money if the stock improves.

While not every executive can perpetually load his or her options all can use them to hedge volatility. Johnson, the biggest potential abuse comes when a company's stock jumps and down but doesn't post any gains over

option's life. Reloads let executives convert to stock when the price is up, then do so again on subsequent bounce. A normal options holder could cash out once, but he would lose the chance to profit from future upticks. "They capture a temporary gain and still have options in place," says Johnson. Most transactions let executives do this without losing any money.

Ironically, reloads—marketed as a way to get executives to hold stock—are gaining popularity at a time when CEOs' stock ownership are already rising to record levels, thanks to the general move in stock-based pay. "If all these executives already have [high ownership levels]," says Eric P. Marquardt, senior president of pay consultant Compensia Resource Group, "what is it that the company is promoting by doing this Good question."

By Jennifer Reingold, with Nathans Spiro, in New York

WHY EXECUTIVES LOVE RELOADS

VOLATILITY HEDGE

The ability to lock in gains from a volatile stock while preserving the upside should the stock go higher.

NEW OPTIONS WITHOUT BOARD APPROVAL

Although the board must approve the initial options grant, the executive can reload whenever he likes, stripping the board of its power to grant—or not grant—options.

TAX ADVANTAGE When reload options are converted to stock, future profits are taxed at the lower capital-gains rate. The more executives use reloads, the more they benefit.

DATA: BUSINESS WEEK

Kicking back after a hard day at the office: The Chase Corporate Challenge.®



Each year 164,000 men and women representing nearly 6,000 companies participated in the largest road racing series of its kind. Each year the 3.5 mile races attract runners from small, emerging growth companies to global corporate giants. Competing in cities around the world, these athletes run for fitness, fun and the privilege of representing their companies.

The Chase Corporate Challenge® is open to employees of corporations, businesses and financial institutions. Teams compete in the Men's, Women's and Coed divisions.

Stay fit. Have fun. Run in the Chase Corporate Challenge. For entry information write or fax: The Chase Manhattan Bank, Sports Marketing Group, 140 East 45th Street, 16th floor, New York, NY 10017. Fax: (212) 557 3799



1998 RACE SCHEDULE

May 7	New York City #1
May 21	Albany, NY
June 11	Rochester, NY
June 17	Frankfurt, Germany
June 24	New York City #2
June 25	Buffalo, NY
June 30	Newark, NJ*
July 9	London, England
July 16	Binghamton, NY
July 21	Stamford, CT
July 23	Morristown, NJ
July 28	Long Island, NY
July 29	New York City #3
July 30	Boston, MA
August 4	Syracuse, NY
August 6	Chicago, IL
August 12	San Francisco, CA
August 18	Paramus, NJ
Sept. 10	Atlanta, GA*
October 3	Championship, New York City

* Licensing Agreement.
Dates are subject to change.



The right relationship is everything.™

© 1998 The Chase Manhattan Corporation.

The New York Times

The Athlete's Foot.

American Airlines

PowerBar

BusinessWeek

TIFFANY & CO.

SAUCONY



TRAIL GUIDE

**IT CHARMS ITS PREY,
STRIKES QUICKLY
AND DISAPPEARS.**

**IT'S YOUR
TYPICAL BUSINESS
SOFTWARE COMPANY.**

(SMOOTHUS TALKUS REPTILIUS)

make any sudden moves. Keep your
open. And trust your instincts. That's

est advice we can give to

one looking for

business manage-

system. At Lawson

are, we encourage

to take your time, ask

f questions and talk to

current customers of every

are provider you're considering.

out whether those features you saw

e demo are actually up and running

here. Ask how long their

ementations took. Ask

t service and support,

what happened when they

ed an upgrade. And, of

e, ask about the product. Is

hitecture capable of handling

ge volume of transactions? Does it

require all new desktops to do so? Are

the applications fully integrated? Process

oriented? Web accessible? The answers

may surprise you.

Lawson Software's

enterprise financials,

human resources,

procurement and supply

chain process suites lead the

industry in providing innovative

ways to gather, process and access

information. We were the first to utilize

web technology, enabling our customers

to share vital information more freely

and cost-effectively. Our Self-Evident

Applications™ practically eliminate

training costs. And our people

are known for their accessibility

and straightforwardness. In other words,

we don't bite. Visit Lawson Software at

www.lawson.com/guide or call 1-800-477-1357.



fig. 1

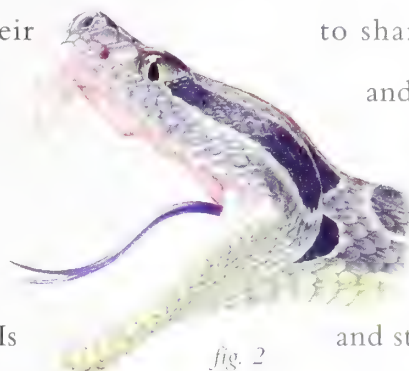


fig. 2

LEADING EDGE TECHNOLOGY WITHOUT THE ATTITUDE™

Lawson Software

LAWSON
Software™



Hossein Haeri, Director of Energy Information Systems

In the beginning
there was light
(But, frankly, it
wasn't that good)



Upgrade your lighting.

Introducing Bright

LIGHT™ the quickest, easiest way

upgrade lighting — and save energy.

In a matter of hours, we can assess

current lighting and outline exact

how to make it more efficient. We

also show you how much you can

expect to save. Best of all, when

purchase energy commodities from

we'll provide you Bright Lights re-

turns. To find out how good light

can be, call 1-888-743-3900.



**PG&E Energy
Services**

People with energy.™

www.pgees.com

PG&E Energy Services is not the same company as Pacific Gas & Electric Company, the utility. PG&E Energy Services is not regulated by the California Public Utilities Commission; and you do not have to buy PG&E Energy Services' products in order to continue to receive quality regulated service.

WHEN YOU FOCUS IN A FLOP

Investment shows the risk of funds betting on a few highfliers

News of apparently questionable accounting at Cendant Corp. crashed its stock price nearly in half on Apr. 16. Cendant shareholders weren't the only ones sweating. Funds in the Morgan Stanley Institutional Fund's Aggressive Equity Portfolio, which held a large stake in Cendant, saw their holdings drop

Cendant's plight underscores the dangers of investing in highly concentrated, or "focused," mutual funds, which are growing in popularity. Unlike the diversified domestic stock funds whose bets are spread among an average of 135 holdings, focused portfolios hold only a few issues, sometimes as little as one. That's how many funds by the dean of the group, Sequoia Fund, whose 28-year record of superior performance often is examined in the case for concentrated portfolios. **RASH.** The Morgan Stanley fund had gains, according to Morningstar Inc., because Cendant, which owned 13.4% of the fund, was its second-largest holding. The effect of Cendant's crash was dramatic. "It certainly points out the danger of concentration," says Morningstar fund editor Russel Kinnel. "One argument for concentrated funds is that it allows [fund] managers to follow their picks more carefully. Obviously, that doesn't always work out." This means investors should steer clear of focused funds? Not necessarily,

particularly if a focused fund is only part of a typical fund investor's portfolio. "If you avoid flaky companies, it doesn't become a problem," says Thomas F. Marsico, manager of Marsico Focus Fund, whose 25 or so stocks have

Where Some Funds Are Concentrated

Morningstar's Principia Plus database found 20 funds with 25 or fewer holdings. Most popular: Berkshire Hathaway

STOCK	AMOUNT HELD*	FUNDS HOLDING STOCK
BERKSHIRE HATHAWAY CL. A	\$999.80	Hilliard Lyons Growth, Oak Value, Sequoia
FREDDIE MAC	582.30	Clipper, Hilliard Lyons Growth, Oak Value, Sequoia, Vontobel U.S. Value
U S WEST MEDIA GROUP	566.67	Longleaf Partners, Oakmark Select
PROGRESSIVE	387.10	Oak Value, Sequoia
KNIGHT-RIDDER	381.50	Longleaf Partners
PHILIPS ELECTRONICS	247.44	Longleaf Partners, New England Growth
FEDERAL EXPRESS	238.40	Longleaf Partners
FIFTH THIRD BANCORP	227.66	Hilliard Lyons Growth, Sequoia
JOHNSON & JOHNSON	207.00	Clipper, Hilliard Lyons Growth, Sequoia, Vontobel U.S. Value
WALT DISNEY	195.65	Oak Value, Sequoia, Vontobel U.S. Value

*MILLIONS OF DOLLARS DATA: MORNINGSTAR INC., BUSINESS WEEK

climbed 29.5% in value so far this year.

Just the same, investors in focused funds need to keep a sharp eye peeled on where portfolio managers are placing their bets. Are big chunks of the portfolios deployed in low-risk "value" plays? Or are they riding on another high-flying Cendant?

To shed some light on that, BUSINESS WEEK studied Morningstar's Principia Plus database of more than 9,000 funds. The list was whittled down first by looking only at general domestic stock funds of at least \$25 million in size and with minimum initial investments of no more than \$10,000. Next, the list was winnowed to portfolios with 25 or fewer holdings. That left just 20 funds, including Sequoia and other renowned names such as Longleaf Partners, Clipper Fund, and G. Kenneth Heebner's New England Growth Fund.

From there, using Principia, BW compiled a list of all the stocks held by the 20 funds (table). Far and away these focused funds' biggest exposure was to Warren Buffett and his Berkshire Hathaway Inc. Three funds hold a total of

nearly \$1 billion worth of Berkshire (specifically, the Class A shares; one also holds Class B shares). Nearly all of that, however, is held by Sequoia, which at last report had more than 31% of its chips on Buffett.

One curiosity: Of the 321 stocks held by these 20 funds, most of them—266—are held by just one. This is a crowd with a broad range of tastes: No stock is held by more than five funds. Those held by five include: insurer American International Group, computer networker Cisco Systems, PC maker Compaq Computer, and mortgage packager Freddie Mac.

Where are the outliers? The contrarians Mason Hawkins and

As Cendant's stock crashed, the value of one Morgan Stanley fund dropped 6.7%

Staley Cates, who run Memphis-based Longleaf, are happy to invest heavily in some lonely spots. They are by far the biggest mutual-fund investor in Knight-Ridder Inc., with nearly 13% of Longleaf devoted to the company. With

7.6% of assets in FDX Corp., Longleaf also is highly exposed to the parent of Federal Express.

Longleaf is one of Morningstar's highest-rated, five-star funds. Nonetheless, with its high concentration of assets in a few stocks, if one were to crater à la Cendant, fund holders would suffer much as Morgan Stanley's did. As it happens, the Morgan Stanley fund's

manager, Kurt Feuerman, also has earned five stars from Morningstar for two similar, older funds that he runs. Feuerman defiantly points out that before Cendant, his fund was ahead more than 20% this year. It remains up 13.4% year-to-date, and has gained 201% since its March, 1995, inception—twice the gain in the average capital appreciation fund over that stretch, as followed by

Lipper Analytical Services Inc. "De this hit," Feuerman says, "the f long-term record is spectacular."

Is Feuerman planning to change ways? Only, he insists, by "putting of my own money in the fund." vestors who follow suit should ensure their dispositions can deal with potential agonies.

By Robert B.

COMMENTARY

By Paula Dwyer

SEC REGULATION THAT DOESN'T CHOKE INNOVATION

With little fanfare, the Securities & Exchange Commission on Apr. 20 unfurled a new proposal that could revolutionize stock trading. The agency that stifled experimentation for decades with its viselike grip on markets voted 4 to 0 to get out of the way of new electronic trading systems. The SEC will allow the systems to exist with minimal oversight, and will let the market decide which ones do the best job of matching buyers and sellers at the lowest cost. That took soul-searching, but with this rule, the agency has found the right mix of regulation to protect investors on the one hand, and encourage innovation on the other.

The SEC is proposing that alternative trading systems can choose to be regulated either as an exchange or a broker-dealer. Among them, Reuters Holdings PLC's Instinet is the oldest and largest, but Bloomberg's Tradebook and 48 others now compete against it. The rule means that Bill Gates, for example, could forsake the NASDAQ stock market and opt to use his own network to trade Microsoft Corp. shares as long as he pays a self-regulatory organization, such as the National Association of Securities Dealers, to monitor his market to prevent investor fraud. He also must maintain an audit trail so regulators can review individual trades that look suspicious.

Experts say that, in many cases, new systems could be up and running within 24 hours. Already, the 50 alternate systems operating today are double the number of a year ago. They account for 20% of NASDAQ and 5% of



New York Stock Exchange trades. "This is a very dramatic change for the SEC," says Richard R. Lindsey, director of the agency's market regulation division. "We are encouraging innovation, which will increase competition. And if there's more competition, we don't really need to regulate as much." He previews new trading systems at least once a week.

OVERNIGHT O.K. But the SEC is not letting go entirely. To guard against fragmentation of the national market system, an electronic trading system handling 10% of the volume of a stock must display its orders for that stock on a traditional exchange, such as NASDAQ or the NYSE. And to protect the overall market from disruptions that may be caused by one large electronic system's outage, large-volume electronic exchanges must meet certain standards for capacity and system failure.

There's even something for tradi-

tional exchanges in the proposal. The SEC is giving the NYSE, NASDAQ, and other traditional exchanges a two-year exemption from certain filing rules. That gives them the freedom to experiment—without tipping off their competitors to their new mousetraps.

The entrepreneurs creating the electronic exchanges are elated. Fredric Ritterer, chief executive of Philadelphia-based Ashton Technology Group Inc., says that the rules "will accelerate the trading systems on our drawing board," including one that will electronically trade equity options. Under the old regulatory framework, Ashton is awaiting SEC approval to operate a new trading system for index funds as an affiliate of the Philadelphia Stock Exchange. Says Ritterer: "I could apply to SEC and get an O.K. overnight."

Until now, most new electronic systems failed even before they left the drawing board, but not because they weren't designed properly. They lacked that essential ingredient—liquidity—which is the measure of how much buying and selling interest there is in a stock. By encouraging new trading systems that threaten the business of established exchange and Wall Street investment banks, but at the same time requiring everyone to display their orders in one place, "the commission is saying the liquidity belongs to the public," says Kevin Foley, manager of electronic trading at Bloomberg. That's a bold statement for what was once a hidebound agency.

Paula Dwyer covers securities issues from Washington.



While you can't
count on the weather,
MCI makes sure
you can count on
The Weather Channel®
web site.

As those storm clouds start to roll in, so do the hits on www.weather.com, one of the ten most visited sites on the Internet. During periods of extreme weather, the site experiences heavy bursts of traffic—up to 25 million hits—as people check in for up-to-the-minute weather conditions. Fortunately, as the site's web host, MCI offers a high-speed network, bandwidth-on-demand and proactive monitoring to ensure the site can handle peak volume periods. After all, The Weather Channel wouldn't want anyone to be left out in the cold. To find out how MCI can help manage your internet and data needs, visit www.mci.com/data.

Telecommunications • Internet • Wireless
Multimedia • Integrated • Managed
Call Center • Network • Services

**MCI**

BY GENE G. MARCIAL

INTERNET ENGINES THAT COULD FAIL

Short the Internet! That's the advice of investment adviser Mike Murphy, who is not unfamiliar with Net stocks, which have been on fire. What's Murphy's beef? Plenty, says the editor of the *Overpriced Stock Service* and *California Technology Stock Letter*.

The simplest way to evaluate Internet stocks is using a ratio of market capitalization to 12-month sales, which Murphy argues is a measure of how much hot air there is in the price. Another measure: the ratio of price to projected 1999 earnings—a measure of "overvaluation even in the absence of hot air," explains Murphy. Almost all Internet stocks fail miserably when put

Murphy's Shorts

	52-WK LOW	APR. 22 PRICE	MKT. CAP. TO SALES	P-E ON '99 EST.
LYCOS	\$11 1/4	\$61 1/4	40.1	364
INFOSEEK	4 1/4	32 1/4	47.8	117
EXCITE	7 1/4	65 1/4	49.8	71

DATA: BLOOMBERG FINANCIAL MARKETS
OVERPRICED STOCK SERVICE

to these tests, insists Murphy—from Yahoo! to Amazon.com. "There is a tremendous amount of money to made here on the downside," he says.

But which Internet stocks deserve "priority" shorting? Certain "search-engine" companies—providers of an Internet index or directory—are Murphy's top bets: He doesn't see them catching up with the Internet's No. 1 directory, Yahoo! The also-rans, says Murphy, are Lycos (LCOS), Infoseek (SEEK), and Excite (XCTT). He argues that with Yahoo!, the 800-pound gorilla in the business, the lesser lights face dim prospects. "For the basic search-engine companies, the first round is over; and Yahoo! won," notes Murphy. Nevertheless, their shares have soared, although they have not yet made money.

Lycos zoomed from 11 in June, 1997, to 61 1/4 on Apr. 22, with a \$1 billion market capitalization. When the bubble pops, Lycos—now in fourth place—should drop to a market cap of \$500 million, or 32 a share, says Murphy. Expected 1999 earnings: 17¢ a share.

Infoseek is a third-tier search engine that's losing even more money per share than Lycos, notes Murphy. He recom-

mends shorting the stock—now at 32¢—anywhere above 20, for a target of 14. He expects it will earn 28¢ in 1999.

Why does Murphy pick on No. 2 Excite, whose market cap is \$1.6 billion? It has lost even more than Lycos in the past year. So Murphy thinks when Lycos drops to a \$500 million market cap, Excite's will fall to \$700 million—a plunge from 65¢ to 34 a share. He's shorting Excite over 56. "We are being generous," he says. Lycos CEO Bob Davis says past quarters showed record (sales) growth. And 12 analysts rate Lycos a buy, adds Davis. Infoseek and Excite officials couldn't be reached.

WATCHING SUNRISE FOR GOLDEN RAYS

Shares of Sunrise Medical (SMD) are just what money managers Mark Fife and Gregg Hymowitz hanker for: The company is in the midst of a restructuring, after disappointing the Street for two years. Its stock, trading at 36 in early 1995, tumbled to 13 in January, 1998. That's when Fife and Hymowitz, through their Entrust Capital, started buying in. Why?

Value investors Fife and Hymowitz find Sunrise attractive partly because they figure the company, which makes wheelchairs and power-lift chairs, has seen its worst and is heading toward broadening margins and recouping lost earnings. After losing \$40 million, or \$2.17 a share, in 1996, Sunrise earned \$10 million, or 55¢, last year. Fife sees earnings of \$1.10 in the year ending June 30, 1999 and \$1.35 in 2000.

A DISAPPOINTMENT TO THE STREET



mowitz. One possible move: sell some assets, such as its unit that makes bath-safety fixtures, and do acquisitions of high-margin businesses. In April, Sun-

rise acquired Sentient Systems technology, a leader in making devices help persons with speech disabilities.

TECH STOCKS THAT ARE PLUGGED IN

Hooray for the mid-cap tech stocks—they're catching up. have helped boost the NASDAQ 100. "It's just the first leg of a long run," says Gruntal's tech guru Vivek Rao, the sector to seek undiscovered companies with solid track records in growing markets—and low valuations.

Three such stocks: Crystal Solutions (CRYSF), Mapics (MAPX), and MRV Communications (MRV). They're still cheap, he argues, because their 1998-99 price-earnings ratios are below their long-term earnings-growth rates. For instance, Crystal's price-to-earnings ratio on estimated 1999 earnings is 18, its annual earnings-growth rate is at least 30%. Ditto for MRV and Mapics.

Crystal, trading at 18, is a "pure play" in Year-2000 and euro-currency-con-

version services," says Rao, for which it has developed sophisticated software. He expects Crystal to earn 76¢ a share in 1998 and \$1 in 1999, up from 44¢ in 1997. His target price: 38.

Mapics is a major provider of enterprise resource planning (ERP) software that combines data from manufacturers on financials, inventory, labor, and purchases in one package. Mapics is benefiting from the rising demand for ERP solutions, says Rao, targeting the 450 companies that use IBM AS/400 systems—such as Boeing, Myers Squibb and Philips Electronics. Rao, who expects earnings of 76¢ in 1998 and 98¢ in 1999, says the stock is now at 18, is worth 26, at least.

MRV is major player in high-speed networking and fiber-optics—making products that improve the performance of data and telecom networks. And its big-time customers are Intel, Fujitsu and Digital Equipment. Rao expects MRV to earn \$1.23 in 1998 and \$1.25 in 1999. Now at 28, the stock should rise in a year, he says.



RAO: He likes Mapics, Crystal, and MRV.

A *Rare* COMBINATION

Your time is as valuable as your money. That's why OLDE offers professional investment advice *with* commission savings. Most discount brokerage firms don't provide advice; OLDE does. And unlike full-service/full-cost brokerage firms, OLDE also offers significant cost savings. This rare combination of advice with discount commissions gives OLDE the unique ability to help you save time *and* money – a combination no other major national brokerage firm provides.

With OLDE, your investment needs can be met with *one* brokerage firm. You'll receive *more* than advice or commission savings alone; you'll receive *both*. Whether you are looking to save for a new home, start a business, invest for your children's education or secure your retirement, OLDE can help with an extensive selection of investment choices and innovative services that include:

- Money market funds
- Stocks, bonds, mutual funds and unit investment trusts
- Secured client access to account information via www.OLDE.com
- No annual fee traditional, Roth and Education IRAs
- Small business retirement plans
- Tax-free and government securities
- Account protection up to \$25 million
- Investment research
- Free account transfer service
- Offices nationwide

VALUE YOUR TIME & MONEY

Advice &
SAVINGS

One Brokerage Firm
One Call

1-800-USA-OLDE

Or Check The Yellow Pages
For The Office Nearest You
www.OLDE.com

 **OLDE**
America's Full Service Discount BrokerSM
Member NYSE & SIPC

Cover Story



THE NEW TRA

They're gutsy, they're savvy.

A Jet-set snuff in Nevada. A software tycoon in Atlanta. A retiree in Florida. A entrepreneur in California. Far from the crude canyons and electronic ticker on Wall Street, these are America's new traders. Their trading posts are atop the extra bedroom or their desks at home. With an ever-expanding array of real-time news services and increasingly powerful analytical tools available on a modest Web site, these wannabe traders mimic the big guns and trade at the click of a mouse.

Certainly the new individual investors emerging from the 16-year bull market are not forsaking stocks as long-term investments. But they are waking up to the shorter-term opportunities in the market. For the most part, they have the time or the desire to be rapid-fire day traders glued to their computer screens all day long. But the information and trading tools at their fingertips are encouraging them to explore an array of short-term investment strategies.

BRUCE OGILVIE, 40, IRVINE, CALIF.

■ In 1994, after selling his business, Bruce A. Ogilvie turned himself into a day trader. He was not looking for overnight gains. Instead, he was looking for steady, consistent returns. "I was looking for a way to make money that was not dependent on the stock market," he says.

Ogilvie was not alone. "There's a lot of people out there who are looking for a way to make money that is not dependent on the stock market," he says. "I was looking for a way to make money that was not dependent on the stock market." He was looking for a way to make money that was not dependent on the stock market.

Ogilvie was not alone. "There's a lot of people out there who are looking for a way to make money that is not dependent on the stock market," he says. "I was looking for a way to make money that was not dependent on the stock market." He was looking for a way to make money that was not dependent on the stock market.

STOCK TRADERS

Don't need a broker

They hope, will complement their long-term holdings. If investing money in stock-index mutual funds produces double-digit returns, they figure, why not take advantage of all the information and analytics on the Net to do even better?

CONFIDENCE? Never before have individual investors been so empowered, and never before has managing their money been so easy and so appealing for such a broad range of people. The phenomenon of more active trading stems from compulsive traders making dozens of trades a day to a far greater community of people trading a few times a month. Forrester Research Inc. senior analyst Cliff Huxford says the number of online investing accounts has jumped to more than 3 million today, up from 1.5 million in 1997. That's just part of the story. Add in people without Internet accounts who are trading via the telephone, and estimates for the total number of individuals trading two or three times a month go as high as 5 million. According to Huxford, there could be 14 million online accounts by 2002.

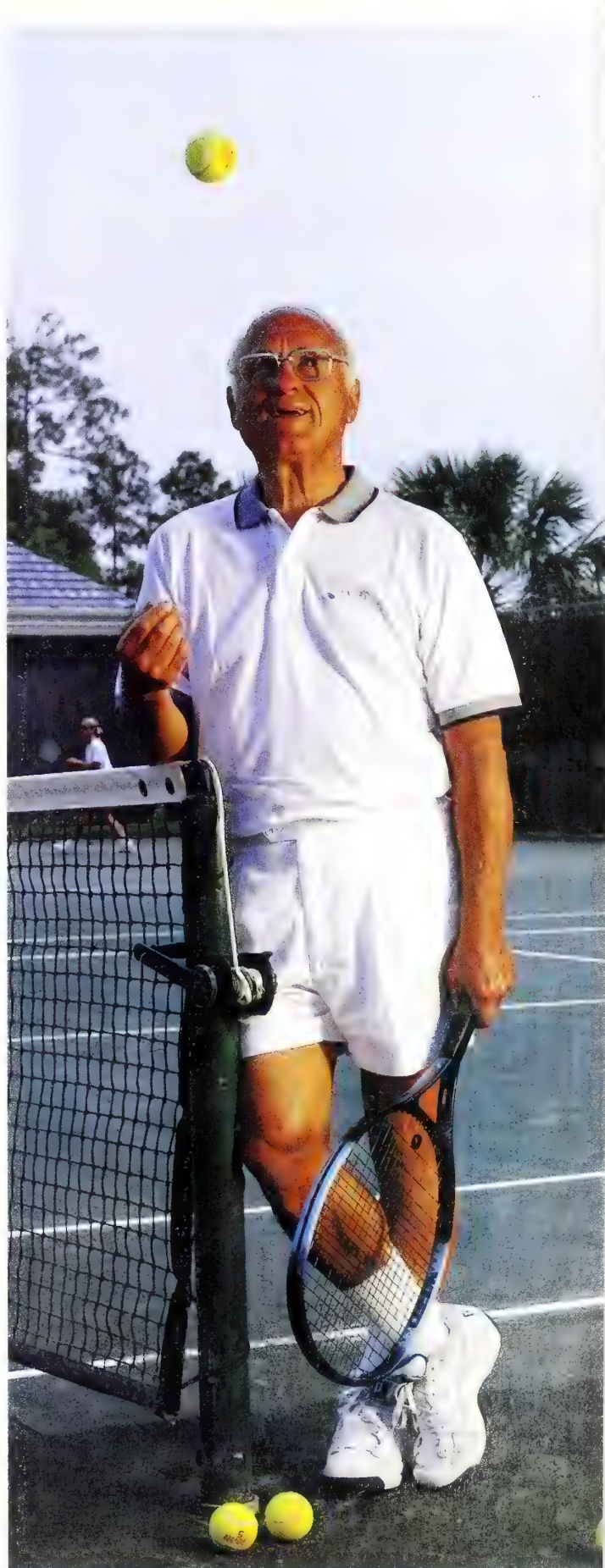
The impact of these new traders on the market is not

MIT TAYLOR, 71, NAPLES, FLA.

"The Internet is the eighth wonder of the world," says 71-year-old Milt Taylor. "It lets me learn more than I ever could of."

Sunday afternoons, Taylor, who owns 10 car franchises and winters in Florida, retires to his back porch, where he maps out next week's trades. "In an hour, I've entered my week's trades into my laptop," he says. "It's so easy to not have to worry about finding someone at the brokerage office." Plus, he says, "I like to make my own mistakes and have no one to blame but me."

Taylor, who trades about 100 times a year, says the low cost of online transacting probably encourages him to trade more. "Some people might trade too much online, he says, but he would just as easily get spread too thin with a full-service broker. "In my opinion, you're no more likely to crash if you do it yourself than you are with a broker," he says.



yet clear: Are they a source of added volatility? Or, by buying on dips, do they provide liquidity that dampens volatility and compresses market cycles? Nor is it clear whether investors will profit in the long run if they focus too much on the short run. These investors, many of whom zero in on notoriously volatile technology stocks, may be adding greater risk to their portfolio at precisely the time when the long bull

Cover Story

market has made them less attuned to the downside risks in the market. If investors develop a false sense of confidence in their investment skills and keep ramping up their risk level, any downtrend in the market may hurt them more than in the past.

What is clear is that these individuals are becoming a potent force in the market and may provide buying support that keeps an aging bull looking spry. True, some of them mistake the parade of ticker symbols on CNBC for the glittering lights of the Vegas Strip, but most are learning sometimes painful lessons that will make them more educated and demanding consumers of financial services. As a service industry springs up in pursuit of the immense profit opportunity represented by these traders, competition for their business will drive costs down and services up—to a level that puts institutions and individuals on a more level playing field.

These investors are not just trading individual stocks but also mutual funds, options contracts—even their 401(k) money. For many, the Internet, with its myriad low-cost online

brokerage sites, affords freedom and control over their money that they find invigorating. Since many people trade in deferred retirement accounts, they don't worry about taxes on short-term gains. Those trading in taxable accounts believe they can earn returns big enough to make it worth even after paying the tax.

"Online trading has been the answer to my prayers," says Milt Taylor, a 71-year-old retiree in Naples, Fla. (page 118). "No one gives you advice or tells you not to buy or sell that many shares of stock, and I love that. I like to make my own mistakes and have no one to blame but me." Says Jennifer Ciekanski, 27, a former programmer now bartending at a Cleveland club: "You get into it a lot more when you're doing it yourself, rather than giving a broker your money." **POPULAR OPTIONS.** A telling sign of the increasing sophistication of investors is the popularity of options trading. Attendance at educational seminars hosted by the Chicago Board of Options Exchange's Options Institute has tripled since 1997; the number of seminars has soared from 32 to 128. "Investors are unequivocally asking for more information and information of a higher level than in the past," says John R. Powell, president of the CBOE's institute. Sue E. Benac, 45, who runs a software consulting firm in Atlanta, B&B Consulting Services, started trading options after taking a course last October (below). "Since the class, I've been doing more trading, and the results have been profitable," she says.

As more investors choose online investing over their traditional discount brokerage route, their trading's

SUE BENAC, 45, ATLANTA

■ After Sue E. Benac's tough-to-reach broker steered her into some losing stocks, she decided to handle her money herself. "The costs have gone way down and it's so easy now," says the software consultant.

Benac took a two-day options class last year and then started trading long-term equity anticipation securities, or LEAPS. LEAPS are options that expire in two to three years. Recently, she bought a lot of Home Depot LEAPS that she sold in January, 1999. Each one cost her about \$9 a share, but "within two to three months they go up 10% to 20%, and then I sell them," she says. "It's been pretty neat to do it and have to put down the big initial investment."

Benac used to be more of a buy-and-hold investor. But lately she's been—while she wouldn't call it speculative—somewhere in between the two extremes. For example, she bought software firm Siebel Systems in July. It rose 30%, fell, and then recovered. So she sold. Lately, when the market has dipped, she's been buying. "Transaction costs are low, and that if someone sits and holds, I'll probably make twice the money they did," she says.

“I thought I could do a better job of managing my own money than my broker has been. In five months, I made 50% on Cisco options.”



HAR SHAH, 23, NEW YORK CITY

Shah can't envision using a full-service broker. He did, however, and a year ago, Shah got a chunk of money his father had saved for him. A consultant who went online, Shah has put his money with Charles Schwab and at least for now. Schwab's \$30 commission is starting to weigh high to him. "There are places where you can trade and have as good a trade as for \$30," he says. Shah owns a number of big-name technology shares, such as Microsoft and Cisco Systems. Before he buys any stock, he looks out its fundamentals, including the historical earnings ratio, its business model, and whether company margins are going up or down.

Shah likes The Motley Fool Web site (www.fool.com), but he's keen on stock-screening software: "There's some good to it, but there's always some other factor underlying something that comes up high or low in the ranking that the screen gives you," he says.

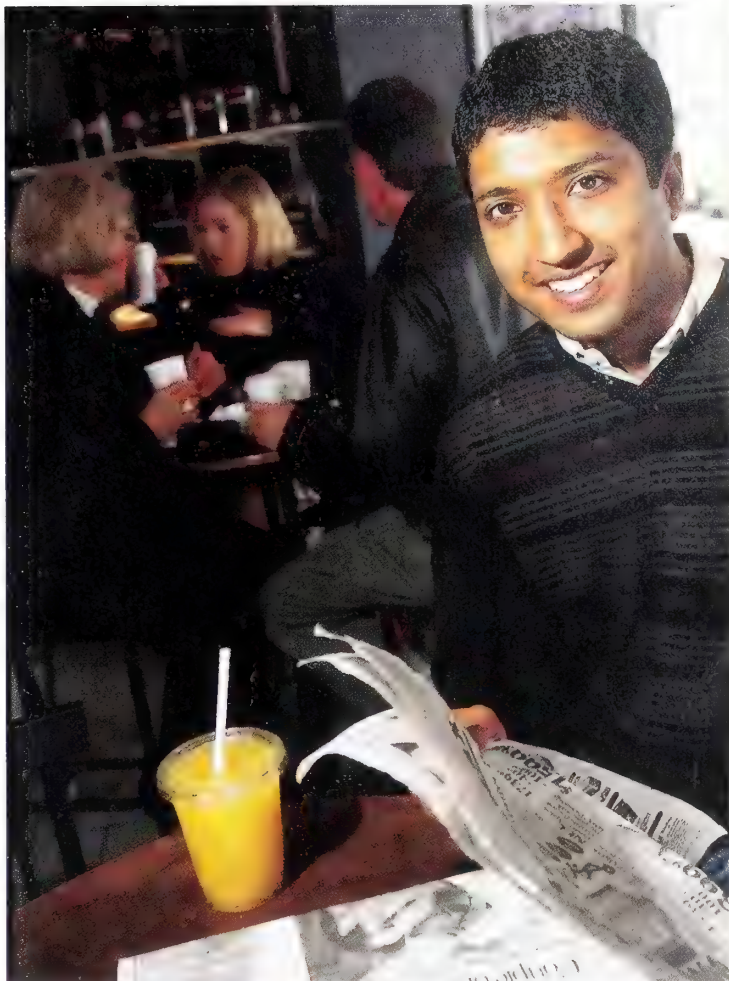
“The fact that I can have a large amount of dollars and get all this information and late-breaking news and trade for \$8 a share is just a great thing.”

g. As a rule of thumb, Julio Gomez of Boston-based Advisors Inc., which specializes in Internet brokerage, says activity doubles when a discount brokerage customer goes from telephone to online trading. Piper Jaffray Inc. analyst Bill Burnham estimates that by yearend, online trading will account for 30% of retail volume, up from 17% in 1997. In three to five years, he says, 50% of retail volume will come from online trading.

The number of firms offering online trading has mushroomed. Gomez now tracks more than 60 such firms, up from 20 a year ago. The industry leaders are Charles Schwab & Co., the largest discount firm, and E*Trade Securities Inc. A battle for market share is being waged, however, with such firms as Waterhouse Securities, Datek Online, and Web Securities coming on strong.

Driving the surge in online trading are plummeting transaction costs. "Cost was artificially inhibiting trading," says Gomez. "You needed the stock to move several percentage points just to recoup transaction costs." In 1997, the average commission charged by the top 10 online brokers fell by more than 50%, from \$34.65 at the start of the year to \$15.95 by yearend. And cheap trading on the Web is driving prices down at discount brokerage and full-service firms alike.

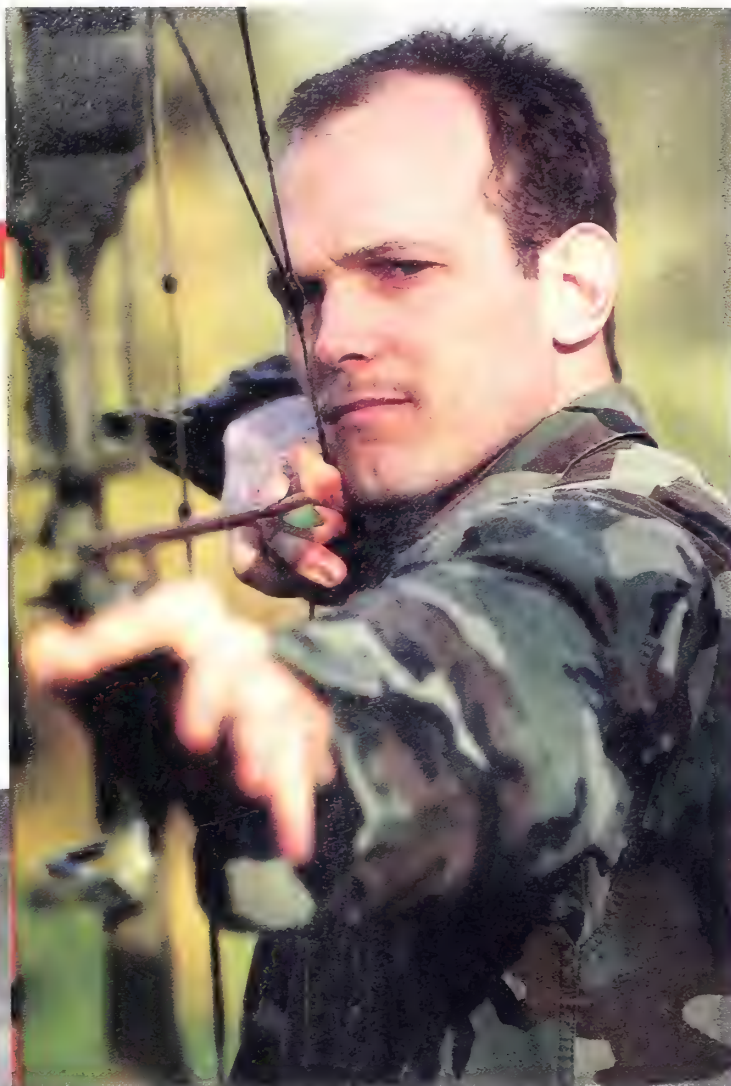
The market break last October showed firms just how active investors could be. Many 401(k) sponsors saw more movement among funds than expected, especially in funds that held company stock. In general, investors are keeping a close eye on their 401(k)s, with the average number of annual calls per participant for plans administered by Fidelity or American Express Retirement Services rising from 1.5 calls per participant in 1994 to 6 calls per person in 1997.



For better or worse, some individuals are finding that the cheapest place to make short-term moves is in their retirement account. Many 401(k) plans have low fees or no fees for transferring money between funds. One investor makes bets that foreign stock markets will generally follow the U.S. market. If the U.S. stock market looks like it will close lower, this investor switches money out of his 401(k)'s foreign funds just before the market's close. The next day, if the Dow Jones Industrial Average ends on an up note, he moves money back into foreign funds shortly before the closing bell. He says his returns have outpaced the averages. Says another investor trading a six-figure position in the Standard & Poor's 500-stock index fund in his 401(k): "It's the cheapest way to play the S&P." A pension fund consultant tells of a client who has a veritable investment club market-timing their 401(k)s. Five men check their accounts daily, call one another, and then speed-dial changes to the plan's 800 number.

MARKET TIMERS. The next big trend among 401(k) plan providers is to make accounts accessible through the Internet. By the end of 1998, clients of American Express Retirement Services will be able to go on the Net and transfer balances, change contribution rates, and change the percentages allocated between funds. If individuals react the way they did when introduced to online trading, they may start trading their 401(k)s more than ever. That's not necessarily bad: Such sites often offer a lot of educational material as well as planning tools to help investors allocate their money.

Active traders of mutual funds have long existed, but the bull market may be egging them on. Bruce A. Ogilvie, chief financial officer at Santa Ana (Calif.)-based Contour Design Inc., which makes ergonomically designed computer mice, used



JOSEPH KAST, 31, SALEM, ORE.

■ Hunting and fishing are favorite pastimes for 31-year-old deputy sheriff Joseph Kast, but lately, the Oregon native has been consumed by a new hobby: trading stocks. When Kast saw how low commissions were for trading on-line, he moved from investing in mutual funds to investing in individual stocks. "In a bull market, I thought I could do as well as any mutual fund," says Kast.

After hearing of an intriguing stock on CNN or CNN Money, Kast turns to his computer and the 20 to 30 financial websites he has bookmarked. Yahoo!Finance is his favorite site. He's young, Kast is willing to take risks and looks for "hot" stocks—"stuff that could balloon and be the next Microsoft." He trades about five times a month, depending on his mood. "This is the hobby I enjoy the most," he says. "It drives my wife nuts sometimes. She doesn't understand how I can be so interested in all these numbers flowing across the screen."

Kast, who has never used a broker, says he might consider turning to one when he approaches retirement. "I don't know," he says, "they might not want to put in the time that I do."

“My concern is to see a company that is growing and blossoming. I’m young, so I can take risks. I trade more often than I should.”

to own more than 20 mutual funds at once but says that hurt performance. He has winnowed his holdings to about 10 funds (page 124). On Oct. 28, 1997, Ogilvie, who trades often, bought heavily into Hong Kong mutual funds when he saw the U.S. market staging a big rebound after its 554-point fall the day prior. The next day, he watched Hong Kong's Hang Seng index rise 12% and put in a sell order. He says his portfolio is up more than 20%.

Cover Story

Fund managers do not like "market timers" because the rapid inflow and outflow of money disrupts their strategies and can mean higher expenses and capital-gains taxes for other fund shareholders. "I know fund managers complain about too much trading, but they do the same thing," says Ogilvie. "They constantly sell and get out when they want to."

FEVERISH MARKETING. After the market break in October, the switching became such a concern that the mutual-fund industry went on the offensive. A number of fund families and fund supermarkets have added loads or are reviewing how to change their fee structures to discourage market timers. But as fund families add barriers and fees to discourage them, other firms are creating funds expressly for such traders. Bethesda (Md.)-based ProFunds launched a family of funds last November that has no loads, fees, or restrictions on moving between funds. "Many market timers try to stay beneath the radar of fund companies," says Michael L. Sapir, the

firm's chairman. "However, especially recently, fund companies have sought to both protect and eliminate investors by trying to time the market with mutual funds."

Sapir says that his funds keep transaction costs down by anticipating large swings of cash between funds and investing in exchange-traded futures and options contracts to track the funds' benchmarks. Since the futures and options contracts they buy are settled the next day, "we can have liquidity on any redemption the next day," he says. So far, the funds have attracted \$50 million.

The biggest number of new products aimed at short-term traders, however, are making their debuts on the Web. Firms are feverishly altering product lines and business models to appeal to these new traders. The incentive for information providers to offer accurate, timely, value-added information over the Web and to help people interpret it correctly is huge. Firms such as PC Quote Inc. and Telescan Inc. have long geared their software to sophisticated investors, but are revamping their offerings. "The Internet brought us to a 'common man' type of market," says Jerry Smith, a Telescan vice-president. "To remain customers, people have to use the technology and make money with it. So we've spent a lot of our time translating capabilities to the beginner level. We are adding a lot of educational material." PC Quote CEO John Porter says firms such as his realized that "if we begin to empower the individual with the tools to manage their own investments, their motivation will afford them the possibility to do

better than some broker is going to do for them, perhaps." At the least, he adds, "I think they'd like to try."

Another firm targeting a wider universe of traders is Iselin (N.J.)-based Datek Online Holdings Corp. The firm used to cater just to users of the small order execution trading system, or SOES, which allowed traders to pounce on fleeting pricing irregularities between bid and ask prices for

NASDAQ stocks. "Datek is trying to court a broader audience, but their core is very aggressive retail traders doing a lot of volume," says Burnham.

Are the efforts of Datek and others to engage and educate the average investor in short-term trading setting investors up for a fall? Or will such efforts help develop better investors? Susanne D. Lyons, who heads Schwab's active trader and affluent customer business, believes the Internet is making investors less tip-prone. "People used to buy on tips they heard at cocktail parties," she says. And sure, there are a lot of tipsters on the Net. Now, people are "more likely to go look at a price chart and make a better informed decision than a tip-oriented buy," says Lyons. "People trade more when they start using the Net, but they're not churning and burning. The wealth of information and news shows

them opportunities they didn't see before." Adds Sta Killeen, a senior vice-president at Fidelity Brokerage Co. "I'd be more worried if the information wasn't there people were trading willy-nilly."

Of course, amateur and professional investors alike make mistakes. The difference now is that more may from their mistakes. As one online trader, a 50-year-old hattanite who trades 10 or so times a day and did not her name used, puts it: "If a broker recommends some you buy and then you lose money, a lot of things go through your head about why that happened. When you're doing picking, you know why it happened." The investor says averages a gain of \$1,200 a day on a \$50,000 portfolio.

TRIGGER-HAPPY. The new investors learn by doing. M Gruen, 58, mastered a big lesson years ago: He did not a career as a day trader. Gruen, of Morristown, N.J., worked for a major investment bank in private client services before retiring a few years ago. About 10 years ago, he tried trading, chasing after eighths of a point, "and learned expensive lesson. I found out I'm not very good at it." Gruen has a quarter to a third of his portfolio earmarked for short-term trading and makes about one big trade a day. He picks stocks based on factors he thinks will affect prices within two to seven days—such as the market overreacting

Cover Story

KATHLEEN BUYERS & RON MILTON LOS ALTOS, CALIF.

■ Kathleen Buyers and Ron Milton are the odd couple of investing. Kathleen focuses on finding value plays, trading maybe 40 times a year; her husband, Ron, is a momentum player and trades at least 200 times a year.

For these Silicon Valley dwellers, investing online is natural. "If you're comfortable making your own investment decisions and comfortable with technology, it's a slam-dunk," says Buyers, 48, a sales manager for Sun Microsystems. She owns 20 stocks, most of them tech-related, and invests with a time horizon of about two years. "I don't believe in asset allocation," she says. That makes her portfolio volatile. It plunged 25% last fall but has since recovered.

Milton, an engineer with Lockheed Martin Corp., at one point had 80% of his account in Ascend Communications Inc., a networking firm. Milton, 58, recently took some profits on Ascend and is up about 45%. "This year I'm trying to eliminate small speculative stocks and get into stocks that have a reason to move other than rumors," says Milton.

One day, Milton and Buyers would like to take a long cruise on their sailboat. "Rather than put money in funds, we might put it in Berkshire Hathaway stock," says Milton.

“This year I’m trying to eliminate small speculative stocks and get into value stocks that have a reason to move other than rumors.”



That card swapping ritual is so passé.

Who hasn't been there when someone's started dealing business cards as if it were a game of five card stud? The Palm III™ connected organizer lets you dispense with that ritual - without gambling with your precious information. Now infrared transfer makes it possible to transfer your business card and other information (including applications) directly to and from other Palm III users. And HotSync® technology lets you exchange data with your PC-great for quick backups and seamless data entry. Of course Palm III still keeps track of appointments, contacts, to-do lists, e-mail and expenses-and applications created by thousands of developers make this organizer even more powerful. Palm Computing products are the fastest selling computer products in history and soon not having one will be like running out of business cards-a big business faux pas. For a Palm III retailer near you, visit www.palm.com or call 1-800-861-2529.



Palm III

The connected organizer.

PalmPilot Professional - \$299*

- Instantly syncs with your PC
- Stores thousands of entries
- E-mail and Internet ready

Palm III Organizer - \$399*

(Includes PalmPilot Professional)

- Infrared Transfer
- Twice the memory
- Applications available from thousands of developers
- Links to Symantec ACT! and Microsoft Outlook included

Optional links (sold separately) available for

- Ascend 97
- ECCO
- GoldMine
- Lotus Organizer and Notes
- Maximizer
- and more

Palm™ Mail compatible with

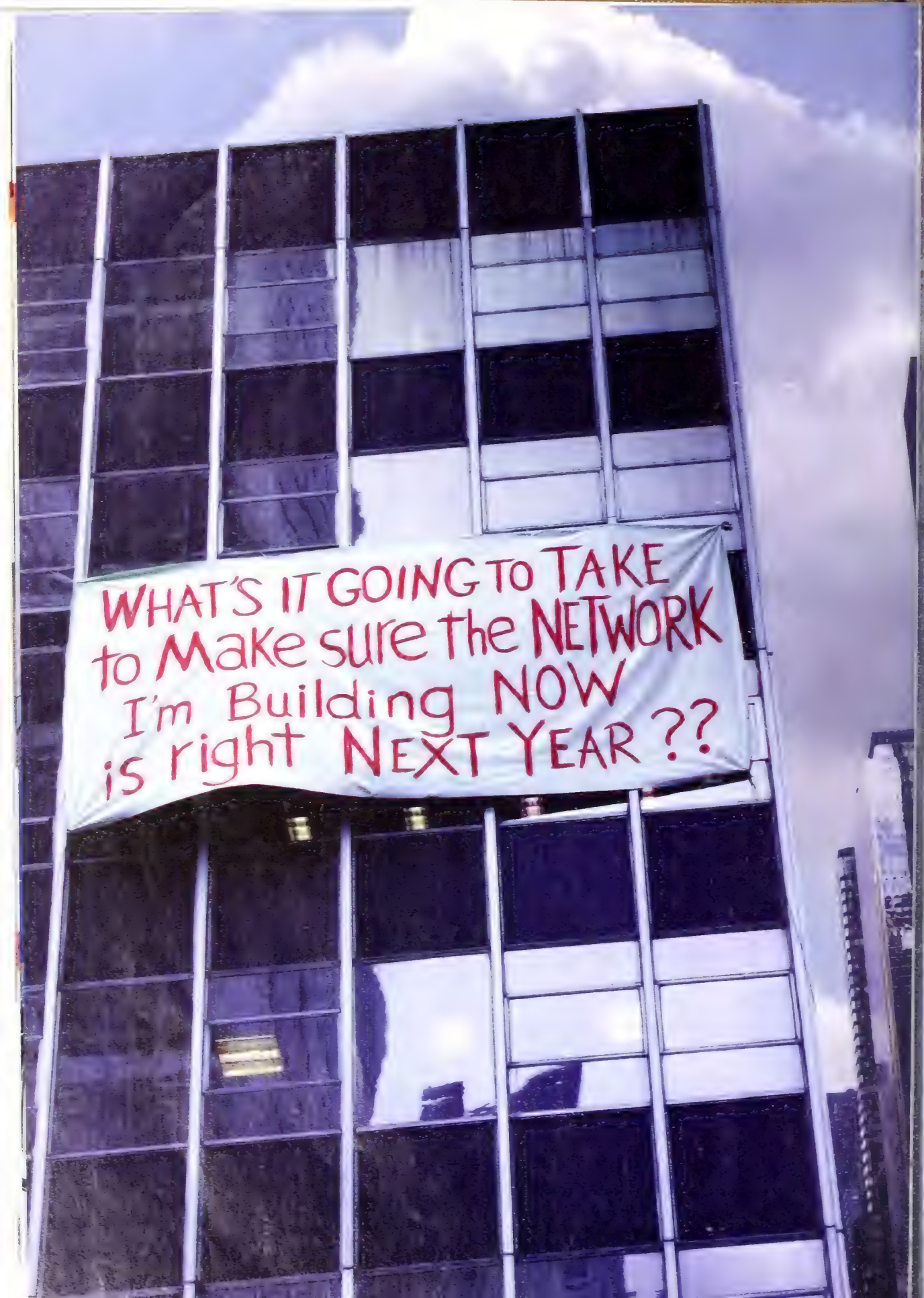
- Eudora 3.0.3 or higher
- Microsoft Exchange 4.0 or higher
- Microsoft Outlook 97
- Windows Messaging 4.0
- and more



* Prices: PalmPilot MacPac, required for Macintosh connectivity, sold separately for \$14.95. Expense and Mail applications desktop software not supported on Macintosh. © 1998 3Com Corp. 3Com, the 3Com logo, Palm Computing, and HotSync are trademarks, and PalmPilot, Palm III, Palm, the Palm III logo, and the Palm Computing platform logo are trademarks of Palm Computing Corporation. Other product and brand names may be trademarks or registered trademarks of their respective owners manufactured by Pilot Corporation or Pilot Corporation of America, manufacturers and distributors of writing instruments.

PALM
COMPUTING
CORPORATION

3Com

A photograph of a tall, modern building with a grid of windows. A large white banner is stretched across the middle of the building. The banner has red text written on it. The sky is blue with some white clouds. The building's windows are dark, reflecting the sky and the banner. The banner is held up by ropes or cables, and it has a slight curve in the middle.

WHAT'S IT GOING TO TAKE
to Make sure the NETWORK
I'm Building NOW
is right NEXT YEAR ??

HOW-HOW What's it going to take to get the bandwidth you need (where & when & as fast as you need
To handle wireless communications as easily as wired? To get data as reliable as voice? (?????) It's going
take people. Technology. Experience. And the ability to deliver.
ve built, and continue to build, the most powerful networks on
th. We've got the largest service force in the industry (already
service more networks than anyone on the planet). And
ve got the brains of Bell Labs behind us. This is the kind of
mbined arsenal it's going to take to make sure the network
start building now is strong enough to be your network down
road. **We make the things that make communications work.**TM

Lucent Technologies
Bell Labs Innovations

600 Mountain Avenue
Murray Hill, NJ 07974-0636
<http://www.lucent.com>
1-888-4-Lucent





PHILIP DAVIS, 31, PENSACOLA, FLA.

■ Philip J. Davis' real estate business takes a back seat to his true love: online trading. He used to take "a strict long-term buy-and-hold" approach but now trades as much as four to five times a day.

Davis started trading actively in mid-1996. He still has his original capital but recently lost the \$400,000 that he made over the past year. He lost most of it by day-trading shares of data-storage company Iomega, although he is in other tech stocks. Since the end of 1997, Iomega is down about 32%. "Since it was the source of my success I felt hesitant to break away," he says. In holding on, Davis violated a cardinal rule of short-term trading: Cut your losses.

Trading is a family affair. "My sister is keeping an eye on Oracle," says Davis. "I feed her a real-time quote now and then. She's a housewife with some time on her hands and wants to build a nest egg to send her kids to college."

“People on the Net may have an ax to grind. Due diligence is a must. You have to do your own research. I never rely on Internet hypes.”

fears of an acquisition being dilutive to a company's earnings.

This phenomenon of more active trading is not without a potentially significant downside. "In this next wave, we will have people intoxicated by the convenience, the utility, and the bull market, and they may end up making investment decisions they regret," says Burnham. Robert J. Farrell, senior investment adviser at Merrill Lynch & Co., wonders if the

bull market is making investors overconfident. "We're giving people tools to convert

to a short-term point of view—now they can even trade the Dow Jones Industrial Average on the CBOE—and most of the pros aren't beating the averages," he says.

One of the most common mistakes investors say they make is being too trigger-happy. When bartender Ciekanski started trading, she'd buy and sell for a quick gain. "Lots of times, I'd sell it real quick and then two to three months later I'd see it way up," she says. "I'm learning to hold on to stocks longer." Joseph Kast, a 31-year-old deputy sheriff in Salem, Ore., can sympathize (page 128). After buying the stock of E*Trade in the high teens and selling it in the mid-20s, he watched the stock rise to 47. "I made money, so I can't complain, but still, the company looked good at the time I sold," he says.

Other investors, however, say they stumbled by hanging on too long. Gruen's results were ahead of his expectations for the first quarter, but he's off to a rocky start in the second quarter. "The damage was self-inflicted," he says. "It reminded me of something I already knew—that when a trade works out, I should take a profit and walk away instead of hanging around for more."

It can be less painful to make mistakes with common stocks. Says Taylor, the Florida retiree: "With my Schwab account, I can take a position in a stock for, say, \$30. At places, the commission could be \$300 to \$400. I can sell the stock, then buy it back, and I don't feel like it's costing me an arm and a leg."

Increased short-term trading leads to increased volatility in the market, says Robert J. Froehlich, chief investment officer for Scudder Kemper Investments Inc. "A lot of investors are not focusing on the next month or quarter, but on what the market will be tomorrow," Froehlich says. "It adds volatility to the market and creates the appearance that they can make money in the short run by outsmarting the market and no one can do that."

"GAMBLING." That critique has been made by countless critics. But a lot of people who advocate investing for the long term are unable to beat the market as well—among them, the fund managers at Zurich Kemper Funds before they were purchased by Scudder, Stevens & Clark Inc. last year. At the time of the deal, the funds had been underperforming for years, with only 10 of their 116 funds meriting a four-star rating from Morningstar Inc., the mutual-fund rating service. In general, sticking to the wrong discipline can cost investors serious losses. Holding on to gold funds, for example, has been disastrous for thousands of people.

It's the fear that mainstream America will take to the stock market with the same gusto that they play slot machines in Las Vegas that worries many market watchers. With the spread between bid and ask prices narrowing and transaction costs so low, "a lot of people are approaching the stock market as a gambling game," says Jeremy J.

Cover Story



*e new, faster Lexmark Optra S Printers:
ack down new savings on your company's printing.*



With the new 1998 Lexmark Optra™ S laser printers, real savings are right under your nose. Four new models with processors that run up to three times faster. So you get crisp 1,200 dpi printouts without wasting time. And that's just the beginning.

Exclusive Optra S features also save you on toner, paper and power. Interchangeable accessories, such as cartridges and paper trays, keep you from having to stockpile supplies. Network compatibility makes it a snap to hook up and run. And with four models between 12 and 24 ppm, you pay only for the speed you need.

To greatly reduce your printing costs, follow the breed that's leading the way. Lexmark. To learn more, call 1-800-LEXMARK (1-800-539-6275) or stop by www.lexmark.com.

*A **bolder** new breed of performance printers.*

**PRINT
LEXMARK**

INE
SCE

4/28/1997
S&B RIVER FLOOD
PHOTO BY G. ALBERT RING

FLOODWATERS HAVE RECEDDED FROM A HEAVILY
DAMAGED SECTION OF GRAND RAPIDS, NORTH DAKOTA.
THIS STORM WAS THE WORST NATURAL DISASTER IN
THE REGION'S HISTORY.

LIFE IS FULL OF

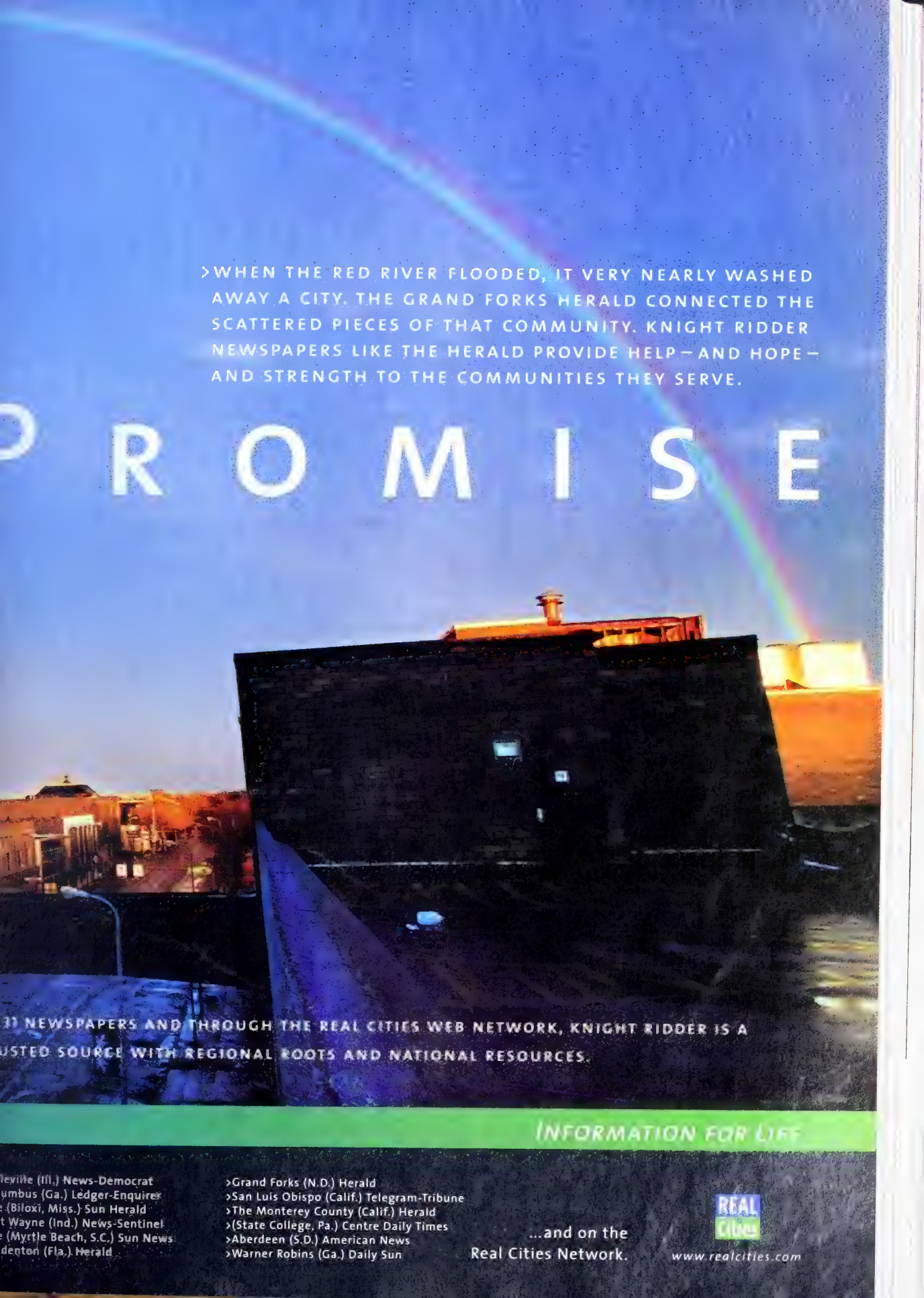
>KNIGHT RIDDER<

We're local,
coast to coast,
in newspapers...

>The Philadelphia Inquirer
>Detroit Free Press
>The Miami Herald & el Nuevo Herald
>San Jose Mercury News
>The Kansas City Star
>The Charlotte Observer

>Fort Worth Star-Telegram
>Saint Paul Pioneer Press
>Contra Costa Newspapers
>Philadelphia Daily News
>Akron Beacon Journal
>The (Columbia, S.C.) State

>Lexington (Ky.) Herald-Leader
>The Wichita (Kan.) Eagle
>The Macon (Ga.) Telegraph
>Tallahassee (Fla.) Democrat
>The (Wilkes-Barre, Pa.) Times
>Duluth (Minn.) News-Tribune



> WHEN THE RED RIVER FLOODED, IT VERY NEARLY WASHED AWAY A CITY. THE GRAND FORKS HERALD CONNECTED THE SCATTERED PIECES OF THAT COMMUNITY. KNIGHT RIDDER NEWSPAPERS LIKE THE HERALD PROVIDE HELP—AND HOPE—AND STRENGTH TO THE COMMUNITIES THEY SERVE.

PROMISE

31 NEWSPAPERS AND THROUGH THE REAL CITIES WEB NETWORK, KNIGHT RIDDER IS A TRUSTED SOURCE WITH REGIONAL ROOTS AND NATIONAL RESOURCES.

INFORMATION FOR LIFE

Deville (Ill.) News-Democrat
Columbus (Ga.) Ledger-Enquirer
Biloxi, Miss.) Sun Herald
Wayne (Ind.) News-Sentinel
Myrtle Beach, S.C.) Sun News
Jacksonville (Fla.) Herald

>Grand Forks (N.D.) Herald
>San Luis Obispo (Calif.) Telegram-Tribune
>The Monterey County (Calif.) Herald
>(State College, Pa.) Centre Daily Times
>Aberdeen (S.D.) American News
>Warner Robins (Ga.) Daily Sun

...and on the
Real Cities Network.



www.realcities.com

professor of finance at the University of Pennsylvania's Wharton School and the author of *Stocks for the Long Run*. That doesn't mean that their bets will necessarily translate into greater market volatility, however. "I don't think their aggregate money is such that they can compete with institutions selling 10, 20, 30 times as

Cover Story

much on each transaction," says Siegel.

Many investors seem to recognize the risks they're taking. Tushar Shah, a 23-year-old consultant in Manhattan, has spent the past year trading a chunk of money saved for him by his father (page 127). Shah, whose portfolio is tracking the

broad market, notes that "the Web is a great democratizing force, but it's hard to distinguish between good and bad sources of information, and with stocks, that's crucial. Nevertheless, Shah says, "it's better than before, when people didn't have any access to information."

In the midst of a raging bull market, investors are signing up to the challenge of managing more of their money as the bull stumbles or turns into the unthinkable—a market—all of this empowerment may not be viewed as the great blessing that it is today. For the time being, however, the enthusiasm of the new traders is, like the stock market, reaching new highs.

By Suzanne Woolley in New York

HOW TO MAKE THE NET YOUR BROKER

Lowndes Rourke, 59, is new to investing. But since the retired marketing consultant decided to take a more active role in managing his money, moving it out of mutual funds and into individual stocks, his portfolio is up more than 40% in four months, outperforming just about all the funds he used to own.

Rourke, who invests from a small, computer-lined room in a 40-foot tower built into his Kent, Conn., home, spent three years clipping articles about the Internet and investing before diving in. Now, he spends up to 12 hours a day doing research. "I wish it was easier to do," he says. "If you do it right, I can't see how it isn't tedious."

Not long ago, investors wanting real-time stock quotes had to call their broker. Now, not only can real-time quotes be found on Web sites, they may even be free. Sophisticated charting, research, and stock-screening tools abound. And the price of access to all of this information is getting lower and lower.

HYPE. Finding information is easy—it's filtering it that's hard. There is a lot of garbage and hype. A Web site's recommended stocks may have very thin floats—meaning there's not a lot of the stock being traded. That can make selling the stock at a fair price tough. Also, the firms or individuals recommending stocks may hold positions in the stocks but not disclose that crucial fact.

Novices can start by going to the

Yahoo!Finance (quote.yahoo.com) or Motley Fool (www.fool.com) sites. Microsoft Investor (investor.msn.com) is another comprehensive site. It costs \$9.95 a month for the full range of its services, but, like Yahoo!Finance, it offers a free portfolio-tracking service.

For a step up in sophistication, check out Telescan Inc.'s Wall Street City (www.wallstreetcity.com). Here,

them makes them feel confident." The site provides detailed financial insider trading reports, institutional ownership, and stock screens, including 50 variables to screen for. Case neophytes want some help before formulating their own screens. The site offers a \$9.95 monthly package, but it's free for the month of May.

Standard & Poor's Personal

Wealth (www.personalwealth.com) site offers buy, sell, and hold recommendations and in-depth analyses of stocks and mutual funds for \$9.95 a month. S&P is a division of The McGraw-Hill Companies, BUSINESS WEEK's parent.

For investors interested in the low costs and convenience of online trading, the next hurdle is winnowing the choices of brokers.

To see what's available, check out Gomez Advisor's Web site (www.gomezadvisors.com). It has a scorecard ranking more than 50 Internet brokers on areas such as ease of use, on-site resources, and overall cost. The first-quarter scorecard gave top honors to DLJdirect, with Waterhouse Securities a close second.

Investing successfully looks easy in a bull market. When Rourke's friends hear how well he's doing in the market, "they think I have some magical formula," he says. But, says Rourke, who spends \$1,000 a year purchasing investment research via Web sites, "it's just hard work."

By Suzanne Woolley in New York

AN INVESTING WEB SITE SAMPLER

INVEST-O-RAMA!

www.investorama.com

Helpful, free directory of investing resources; good articles on investing basics

MICROSOFT INVESTOR

investor.msn.com

Free portfolio tracking service; subscribers get stock- and fund-screening tools and news feeds

S&P'S PERSONAL WEALTH

www.personalwealth.com

Site offers original editorial content, extensive data, and customized investment advice

THESTREET.COM

www.thestreet.com

Site has colorful, free, market commentary and timely feature articles

WALL STREET CITY

www.wallstreetcity.com

For the analytically minded, site has powerful charting capabilities, info on insider sales, and more

DATA BUSINESS WEEK

investors can screen for, say, stocks with high or low price-earnings ratios, stocks with high or low levels of institutional holdings, and much more. When customers sign up, they get weekly E-mail messages during the first month about how to build and track a portfolio, how to do company research, and how to use search capabilities. A basic subscription is \$9.95 a month.

Market Guide Inc. (www.marketguide.com) is another site with deep and broad information. "Despite low commission levels, people don't trade unless they're confident," says Homi M. Byramji, president of Market Guide. "The information we give

HOW TO DRAMATICALLY IMPROVE YOUR NETWORK WITHOUT DOING ANYTHING DRAMATIC.

INTRODUCING NETWORKING THAT MAKES BUSINESS SENSE.

To stay competitive, you don't have to do anything extreme. You don't have time for downtime or the millions in lost revenue that can come with network redesign. That kind of business interruption just doesn't make sense. Cabletron has smart solutions that give you what you need right now. Solutions that deliver powerful, leading-edge business applications. And we think that makes a lot of sense. Take our versatile SmartSwitch Router. It will actually drive applications through the heart of your network one hundred times faster than traditional routers at a tenth the

SmartSwitch Router

cost, with the security you depend on. That's incredibly smart. Then there's SPECTRUM® Enterprise Management software. Not only

SPECTRUM® Enterprise Management Software

does it understand your network, it understands your

applications so you get the most out of them. That's sensible. And all of our smart solutions are backed by our world-class, worldwide service and support team. So contact your authorized reseller or

World-Class, Worldwide Service and Support

call Cabletron at 1-800-438-3351. Nothing dramatic, but it makes good sense. Good business sense.



www.cabletron.com

HOW MOTOROLA LOST ITS WAY

For years, Motorola Inc. had supplied virtually all the wireless phones to Ameritech Corp. But when it came time to switch to the new digital technology, something went haywire: Motorola wasn't ready. So in the summer of 1997, Ameritech rolled out its digital service using phones from rival Qualcomm Inc., a San Diego upstart. "I could not stop my strategy or my business plan and was forced to go with vendors that were ready," says Marc Barnett, Ameritech Cellular's director of product marketing.

An isolated case? If only. Instead, one of the world's most admired companies, known for cutting-edge technology and gold-plated quality, is coming up stunningly short these days. The former trailblazer in two-way radios, cell phones, pagers, and computer chips has missed a digital beat and now finds itself scrambling to catch up. Even then, its products don't always pass muster. In 1994, Motorola claimed 60% of the U.S. market in wireless phones, according to Herschel Shostek Associates. Today, it has 34%.

The company's wireless-equipment business hasn't fared any better. In the U.S., Motorola has lost crucial ground to Lucent Technologies Inc. and Northern Telecom Ltd.—in part because it has sold faulty products. On top of the problems Motorola has created for itself, a downturn in the semiconductor and paging industries and turmoil in Asia haven't helped.

Now, the go-go growth company of a few years ago is barely inching along. Revenue growth, which soared an average 27% a year between 1993 and 1995, has slowed to 5% in the past two years, to \$29.8 billion in 1997. Profits have

tumbled, too: down 33% since 1995, to \$1.2 billion in with a 25% plunge expected this year. As for shareholder turn, it has averaged less than 1% annually in the past years, vs. an average 54% in the previous three years. Steven Goldman, a professor at Lehigh University who done consulting work for Motorola: "It's hard to imagine that six or seven years ago Motorola was one of the most admired companies in the world. Now, you talk about Nokia

Ericsson and how they're eating Motorola's lunch."

Even worse for Motorola in the haul, its hard-earned reputation quality is being questioned. The company that won the Malcolm Baldrige Quality Award in 1988 once insisted that every executive sentation begin with an example of to improve quality, now finds itself ing customer complaints. These to a head in March, when Motorola a \$500 million contract with wire carrier PrimeCo Personal Commu-

tions. The carrier's beef: Motorola's equipment would s times shut down, leaving customers unable to make ca

Motorola admits to having problems in recent years b sists the future is bright. CEO Christopher B. Galvin elined to comment for this article, but Motorola execs who report to him say he has set a hurdle of 15% to 20% enue growth and, despite the company's problems, expect achieve that within the next year or two. Galvin is b that the industries the company is in will grow 15% a and expansion into new markets will be frosting on the "We're not very happy with the last few years of busine

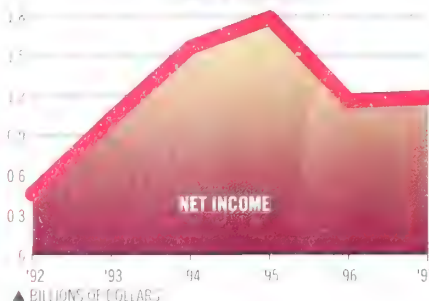
The inside saga of warring factions and strategic blunders

AS MARKET SHARE HAS ERODED...



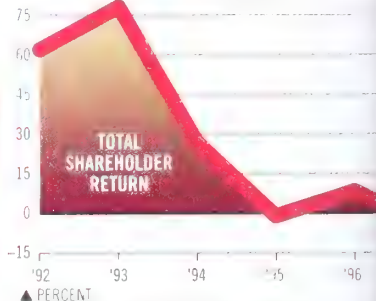
DATA: HERSCHEL SHOSTEK ASSOCIATES

...MOTOROLA'S PROFITS HAVE SLID...

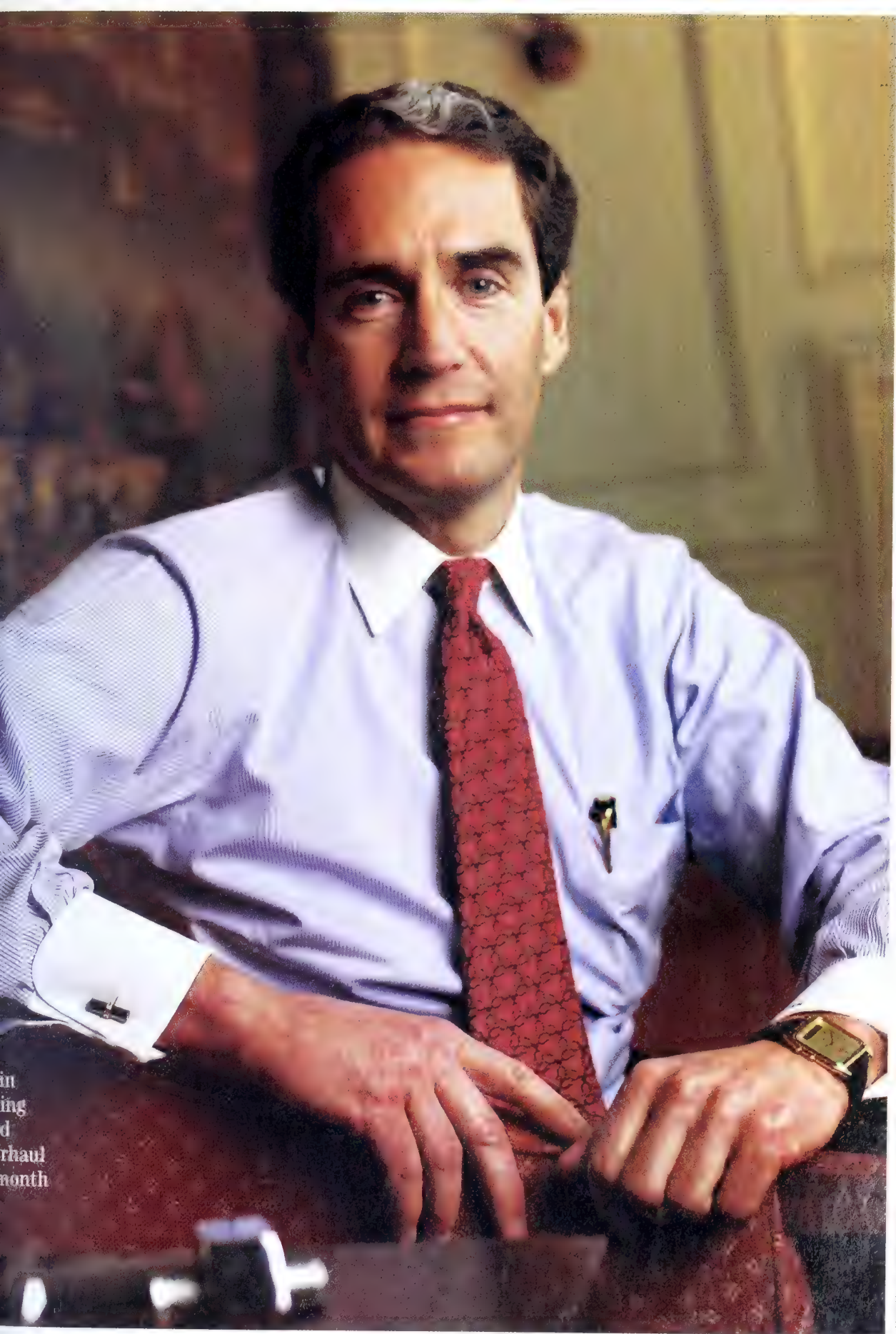


DATA: MOTOROLA

...AND STOCK RETURNS HAVE TANKED



DATA: BLOOMBERG FINANCIAL MARKETS



sults," says Merle L. Gilmore, an executive vice-president. "Just as we have renewed businesses regularly in our history... we expect to be able to renew our business again."

One promising new market: satellite communications. Motorola's flagbearer there, Iridium, will blast the last two pieces of a 66-satellite constellation into the sky on Apr. 30 and begin offering new voice and paging services for business travelers in September. Iridium, 17.7% owned by Motorola, could generate revenues of \$2.6 billion by 2000, says Chase Securities Inc. "If you throw our product in your briefcase, you know you can make a call from anywhere on the planet, and people can get to you," boasts Iridium chief Edward F. Staiano. Motorola has \$6.3 billion in Iridium contracts and it's developing satellite expertise that should help win future business.

To be sure, Motorola remains a force to be reckoned with. Even with its market-share losses and customer complaints, it's still the world's largest maker of mobile phones and a top supplier of wireless equipment. It's a leading maker of digital phones overseas. And it remains the most sought-after brand name in mobile phones. Almost every carrier that criticizes the company for its late products says it does so because it wants them so badly. "We need them back in the game," says Dennis F. Strigl, CEO of Bell Atlantic Mobile.

But time is crucial. Galvin, 48, the grandson of Motorola's founder, is working furiously to stem market-share losses and return the company to its roots as a creator of top-notch products. Since taking over 16 months ago, he has replaced the heads of the wireless-phone and -equipment businesses and has installed top lieutenants in key posts throughout the company.

Galvin also has railed against a culture that he thinks, times, has been too smug, too engineering driven, and too focused on internal rivalries. To foster cooperation among divisions, he's starting to pay top execs based on company performance—not just their own division's results. At the same time, Galvin has insisted that sales reps better serve customers. Already Motorola is working closely with Wireless Services to develop an innovative digital phone. "They're bending over backward for us," says an AT&T executive. "That's never happened before."

"WARRING TRIBES." The most dramatic change is expected later this spring, when Galvin will restructure the company the second time in his short tenure. His aim: to consolidate divisions into three major groups, including a communications division that will pull together mobile phones, wireless equipment, two-way radios, pagers, and cable modems. This will encourage the communications teams to coordinate business plans, share ideas, and cut down on development costs.

This also could go a long way toward curbing Motorola's culture of "warring tribes." In recent years, division heads have had most total control of their operations, which meant they often compete or simply refuse to cooperate with other divisions. That culture worked well at times, especially when the company's operations cannibalized Motorola's own two-way radio business and became a much bigger business. But recently, internal feuds left Motorola's divisions badly out of step. The semiconductor group wouldn't make chips other divisions wanted to use. And the wireless-equipment group sold customers out a year or two ago—while the wireless-phone unit is just coming out with digital phones for those systems.

Motorola's History *IT HIT THE PINNACLE OF SUCCESS ONLY TO FOLLOW WITH MANAGEMENT MISSTEPS AND ILL-TIMED STRATEGIES*

SEPT. 25, 1928 Paul Galvin and his brother Joseph Galvin found Galvin Manufacturing in Chicago.



PAUL AND JOSEPH GALVIN

1948 Designs the first portable FM two-way radio, a backpack walkie-talkie that's the predecessor of today's cellular



AN EARLY WALKIE-TALKIE

phones. The company goes public.

1955 Introduces its first pagers—a business Motorola comes to dominate with 85% market share.



AN EARLY PAGER

1974 Unveils its first microprocessor, the 6800. By 1997, Motorola's computer chip business grows to \$8 billion in sales—21% of the company's revenues.

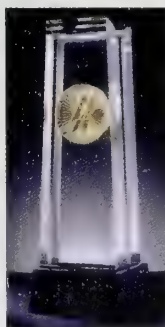
1983 After 20 years and \$200 million in development, the company's first cellular telephone net-



AN EARLY EIGHTIES PORTABLE

work begins commercial operation.

1988 The company's nine-year push to emphasize quality products culminates when it receives the Malcolm



BALDRIGE AWARD

Baldrige National Quality Award from Congress.

1988 George Fisher succeeds Robert Galvin as chief executive officer,

the first non-Galvin to head the company.

1990 Motorola discontinues development of wireless infrastructure based on a standard called TDMA in favor of an alternative, CDMA, which is supposed

to have higher capacity to carry phone calls. Lack of TDMA equipment means Motorola carries 25% of the digital wireless infrastructure

1990 GTE, South Bell, BellSouth, and One drop Motorola of poor switching quality in its wireless equipment

1993 Gary Tooker over as CEO after Robert Galvin leaves for Eastman



CHAIRMAN TOOKER

high that these efforts will pay back on track. To head communications division, Galvin Gilmore, a long-time confidant, had been running the company in Europe, Africa, and East. "The most important thing," says Gilmore, "is that the company will be able to serve the customer better."

But Motorola has a good shot at winning if Galvin is willing to make moves. Top of the list: He must decide whether to sell the struggling wireless-equipment business or buy a telecommunications maker to bolster it. More important, he must break out of Motorola's culture so its executives get closer to customers—instead of dictating to them.

TURF. So how did the once mighty Motorola lose its way? Now could a company once dubbed the "American Apple" be blazing a trail overseas, finding itself being beaten by European giants and outfoxed by U.S. competitors? Interviews with current and former Motorola executives, rivals, and analysts paint a jarring picture of how the company's fall from grace.

The tale is a cautionary one. It's a lesson in how a company can reach the pinnacle of its industry—and become its own success. It was hubris, say insiders, that led Motorola to give up from recognizing better technologies, changing its products, and customers' needs. What followed were man-

The company's semiconductor group wouldn't make chips other divisions needed

agement missteps, ill-timed strategies, and spotty execution.

It began in the heady days of 1995. At the helm of the company sat Gary L. Tooker, a personable if not charismatic executive who had started working in Motorola's semiconductor operation 33 years earlier. He had replaced the much praised George M. C. Fisher, who had left to head Eastman Kodak Co. in 1993. At the time, Robert L. Galvin, the son of the founder and the company's chief for 27 years, polled the board to find out if they would name his

son, Chris, then a senior executive vice-president, as CEO.

Board members balked. They thought the younger Galvin, then 43, was too green. He had started out at Motorola in 1973 selling two-way radios and had headed several key businesses, including the paging division. But some executives still considered him a lightweight, in part because he did not have an engineering degree like most of the other top brass.

Still, it was a matter of when Galvin would become CEO, not if. "Inside, people knew it was a monarchy," says one former senior executive.

Tooker, by contrast, was an engineer who had helped Motorola prosper largely by giving division heads free rein to run their own show. The company owned the wireless-phone

Information Technology

raises \$800 million in medium satellite communications to the world.

and discontinues production for partner ability to wireless

s decide general order in cable Tooker and Motorola's wireless communication cable the decision from wrap-up modem's set-top

decide not up from use of



QUALCOMM CHIP

Developing CDMA chip internally slows introduction of Motorola phones.

SUMMER 1996 Discontinues production of its Marco and Envoy handheld computers,



which are design marvels but commercial flops.

MOTOROLA ENVOY

1996 Introduces the Startac, Motorola's smallest cellular phone. Motorola's decision to limit distribution to carriers that buy most of their phones from the company infuriates customers.

STARTAC CELLULAR PHONE

JAN. 1, 1997 Christopher Galvin, grandson of the founder, becomes CEO.



CHRIS GALVIN

AUGUST 1997 Apple Computer interim CEO Steve Jobs pulls the plug on licensing the Macintosh to cloners. Motorola, which developed the PowerPC chip used in the Mac and had launched a Mac-clone business, has to fold its clone operation.



JOBS

MARCH 1998 Because its network shut down for up to two hours, wireless carrier PrimeCo replaces Motorola as the supplier of wireless infrastructure for a \$500 million contract.



APRIL 7, 1998 First-quarter earnings plummet to half those of a year ago, and Motorola warns that profits will remain below forecasts for several quarters. The stock plunges 11%.

MAY 1998 Galvin plans to announce a restructuring into three major groups: communications, semiconductors, and components. The goal is to better coordinate the R&D and marketing in the divisions making consumer products such as cellular phones and pagers.

PHOTOGRAPHS BY MICHAEL J. ABRAMSON (GALVIN), STEVEN WEINREB (JOBS), AND ASSOCIATES (CHIPS)



me

In a world too ready to abandon the last great thing for the next great thing, we make integrators, so whether it's OpenVMS, UNIX or Windows NT, no one's better at making it all work.

© 1997 Annual Computing Solutions

Product of Digital Equipment Corporation, Digital, the Digital logo



mesh

digital

—past, present and future—work as one well-oiled machine. We were voted #1 systems
www.digital.com/mesh, or call 1-800-DIGITAL. And get ready to win in a networked world.

© 1997 Digital Equipment Corporation. All rights reserved. Digital, the Digital logo, and the trademarks of Digital are trademarks of Digital Equipment Corporation.

business: Its share of the U.S. market had increased to 60% in 1994—Nokia Corp. and L. M. Ericsson were barely a blip on the wireless scene. In January, 1995, Motorola announced results for 1994 that brought Wall Street to its feet: Revenues were up 31%, to \$22.2 billion, and profits soared 53%, to \$1.6 billion.

But this also was the year that U.S. wireless carriers began waking up to digital technology. The digital era promised new services like Caller I.D., paging, and short messaging. The carriers were hooked.

Not so Motorola. In one telling meeting in February, 1995, top execs from Ameritech met with Motorola's brass at the cellular industry's big trade show in New Orleans. "I need [digital] handsets...in a year," Barnett recalls saying. Motorola's cellular-phone chief, Robert N. Weisshappel, wasn't there, but his second-in-command did her best to reassure Barnett. "We want to meet your goals," said Suzette Steiger, according to Barnett. "Let me take it under review." AT&T, Bell Atlantic, and others were delivering the same message.

But inside Motorola, it was falling on deaf ears. Weisshappel, a bespectacled former engineer, had spent 24 years at Motorola and deserved much of the credit for making its cellular-phone business dominant. Known for his explosive temper, his greatest skill was in designing ever smaller stylish phones.

In 1995, he believed that what most consumers wanted was

WEISSHAPPEL

The cellular phone chief clung to analog, costing the company precious time



Atlantic wasn't the only company to take exception. Corp. and BellSouth Corp. refused to participate in the program, and sales to both carriers dropped.

The company's digital delays weren't caused only by Weisshappel's preoccupation with StartAC. Motorola tried buying semiconductors from rival Qualcomm to get into the game faster. But Weisshappel felt Qualcomm's prices were excessive, and he stopped buying in 1995 to develop the technology internally. As it turned out, the development took two years and cost millions of dollars, and lost the company precious time.

TENSE MEETING. Meanwhile, customers were launching a service—without Motorola phones. In February, 1997, years after he had first asked for digital phones, Ameritech met again with Steiger. "We're placing orders," he told her. "Do you have phones?" She didn't. Ameritech reluctantly turned to Qualcomm.

By early 1997, newly minted CEO Chris Galvin had enough. Rivals Nokia and Qualcomm were putting a dent in Motorola's market share. In a tense meeting at Motorola's headquarters, Galvin demanded to know why the mobile-phone group hadn't released key digital phones. Weisshappel had heard all this before and was tired of badgering. "I guess I'll just buy Qualcomm," he joked, according to one person at the meeting. Weisshappel left the company the following August.

By that time, Motorola had long made the decision to make digital phones. But it wasn't that simple. There were three competing digital standards to choose from in the U.S. Code Division Multiple Access (CDMA) technology offers six times the capacity of other systems—and is now the most popular, with 50% of the U.S. market. Time Division Multiple Access (TDMA), has three times the capacity, accounting for one-quarter of today's market. Global Standard for Mobile Communications (GSM), the third standard with two to three times the capacity, claims 25% of the U.S. market and is the technology choice in Europe.

Motorola developed its GSM phones first and has been a big supplier overseas, as well as in that segment of the U.S. market. But it has been slow to develop phones for the other two U.S. standards. "We underestimated the engineering effort to bring these products to market," says Jamie Caille, corporate vice-president for marketing in Motorola's mobile-phone group. "It's an embarrassment to us."

By all accounts, Motorola's wireless-equipment group may be red-faced, too. In 1995, executives had been aggressively developing digital products, but they put all their chips on just one standard in the U.S.—CDMA. As it turned out,

Information Technology

big and bulky because the technology was so new. "Forty-three million analog customers can't be wrong," he told a small gathering of execs at the cellular group's headquarters in suburban Chicago, according to one former employee. "It was hard to get him to stop talking about [analog]," recalls one executive. "The rank and file were scared to death."

But Weisshappel had what he thought was an ace up his sleeve. In January, 1996, Motorola introduced the ultrasleek StartAC phone. The phone had taken two years and millions of dollars to develop—and it was a design marvel, smaller than a cigarette pack. "Motorola has taken what was never thought possible and made it a reality," Weisshappel crowed at the time.

Sure, the StartAC wasn't digital, but Weisshappel thought he could use his design breakthrough to hold back the tide of technology. In the summer of 1996, he and his top execs introduced the so-called Signature program. The idea was simple: Motorola would distribute the StartAC only to carriers that had bought a high percentage, typically 75%, of their mobile phones from Motorola—and agreed to promote the phones' features in stand-alone displays. The goal was to boost margins with higher-priced products such as the \$1,500 StartAC and, at the same time, protect Motorola's market share.

The Signature program turned into a fiasco. In one meeting in Bell Atlantic Mobile's executive conference room at its Bedminster (N.J.) headquarters, Weisshappel and his team laid out the requirements for the carrier's executives with what Bell Atlantic Corp. says was a "you-must" attitude. The carrier's Strigl quickly became furious. "Do you mean to tell me that [if we don't agree to the program] you don't want to sell the StartAC in Manhattan?" he recalls telling Weisshappel. Weisshappel declined comment on the incident. Bell

Customers started complaining Motorola's system sometimes shut down



Build a boat.

Someday I plan to: Teach someone to read. Run for city council.
Look up old college friends. Catch my limit of wide-mouth bass.

PLAN FOR THE FUTURE WITH THE DREYFUS MIDCAP VALUE FUND.

This high performer invests in mid-sized company stocks that are

DREYFUS MIDCAP VALUE FUND	
41.11%	36.12%
ONE YEAR	LIFE OF FUND

AVG. ANNUAL TOTAL RETURNS AS OF 3.31.98 INCEPTION DATE 9.29.95

temporarily out of favor, and which we consider undervalued in

the marketplace. It could mean the difference between simply meeting your goals, or exceeding them. So what are *you* investing for? **DREYFUS. RULE YOUR KINGDOM.™**

**TO FIND OUT MORE, CALL YOUR FINANCIAL
ADVISOR OR CALL US AT 1-800-443-9794x4495**

Dreyfus

**a Prospectus containing complete information including charges and expenses. Please read it carefully before
est. Past performance is no guarantee of future results. Share price and investment return fluctuate so redemption value may
or less than original cost. ©1998 Dreyfus Service Corporation, Broker-Dealer. Premier Mutual Fund Services, Inc., Distributor.**

eliminated Motorola from 50% of the U.S. market. The irony, say former executives, is the company had been developing TDMA equipment but abandoned it to focus on CDMA. "We were way ahead of everybody," laments one engineer who worked at the company during that period. Motorola says it dropped TDMA because it didn't think it had strong enough relationships with TDMA carriers to land deals.

Still, Motorola did have some big CDMA wins. In September, 1995, Primeco tapped the company to help build its national

Information Technology

network. And Motorola would go on to nab \$5 billion in equipment contracts in 1997.

While Motorola was scrapping for contracts, it had to protect what has been the Achilles' heel of its wireless-equipment business: its lack of a telecom switch. A switch, a type of computer, is particularly important in digital networks, which need much more intelligence than the old analog systems. It's the switch that makes the snazzy new services possible. Motorola has established itself as the king of base stations, which send and receive sound over radio frequencies to mobile phones, but it doesn't make switches. Traditional telephone-company suppliers, such as Lucent and Northern Telecom, make both pieces so they can offer customers no-fuss integrated networks.

By 1995, the company had been trying for more than a decade to get a strong switch partner. In 1984, it signed an agreement with DSC Communications Corp. in Plano, Tex., for the two companies to market their equipment together. But in 1990, Motorola got dumped for poor switching capabilities by four key customers—GTE, Southwestern Bell, BellSouth, and Metro One Communications. In 1992, Motorola instead formed an alliance with Canada's Northern Telecom—but the partnership fell apart two years later when the competitors couldn't put aside their differences. The company again turned to DSC and at times Siemens and Alcatel Alsthom.

But problems continued. In early 1996, Bell Atlantic was getting more concerned about cellular fraud and asked its two equipment providers, Lucent and Motorola, to come up with solutions. Lucent provided a product within three months. In part because of switching problems, it took Motorola more than a year—and Bell Atlantic is still not satisfied. Strigl replaced Motorola with Lucent as his equipment provider in Connecticut. "We were very concerned that we were getting such fast response from Lucent and we were getting promises but no action from Motorola," he says. "I couldn't take them at their word anymore."

It got worse. In late 1996, PrimeCo started getting complaints from customers because Motorola's system would oc-

asionally stop working—the lapses lasted between 30 min. and two hours. PrimeCo traced the problem back to Motorola and, after Motorola tried in vain for several months to repair it, PrimeCo decided to bring in Lucent.

PRICE WARS. AirTouch Communications Inc., which owns half of PrimeCo, also has been experiencing a high number of dropped calls in its Los Angeles market, where it uses Motorola equipment. An AirTouch spokesperson declines comment on whether Motorola would remain an equipment supplier. The stumble in digital has taken its toll: Motorola's share of the U.S. digital equipment market was 13% in 1996, vs. Lucent's 38% share, says the Yankee Group.

Not all of Motorola's problems are of its own making. In spite of a huge share of the pager and paging-equipment markets, price wars have left paging companies without money to buy products. Revenues in the Motorola group that includes paging dropped 4% in 1997, to \$3.8 billion. Problems at Apple Computer have devastated Motorola's computer-chip business, so it is pushing harder on special-

chips for airbags and other products.

The Asia turmoil has contributed to Motorola's woes. In 1996, Motorola was beginning to reap substantial benefits from its decade push overseas, particularly in Asia, where the company dominates the Asian market for two-way radios and pagers. It was running head-and-neck with Ericsson for leadership in the mobile phone market, and, after battering its way into Japan's protected telecom market, it held close to a quarter of the mobile-market.

But trouble ahead. The 200 employees at Motorola headquarters who focused on the Japanese market were ordered to analog

units—despite protests from Motorola's executives in Japan. "Motorola could be revered today if only it had embraced digital," says a former Motorola executive who was in Japan at the time. Motorola was late with digital phones and, in the past three years, has seen its market share slide to 3% of recent economic downturn in the region also has hurt demand.

Questions about the company's future remain. Can it stay up in digital phones? Will it sell off its wireless equipment business? Can Galvin fix its culture, a task of no small magnitude?

Despite its problems, a sense of optimism is circulating through the company's headquarters. Galvin is telling executives that Motorola must strive for "renewal"—competing in new businesses in which the company can recreate itself. After all, Motorola got its name because founder Paul Galvin developed a market in car radios, and then the company abandoned it as cellular service was taking off.

Now we'll see if Chris Galvin can truly follow in his father's footsteps.

By Roger O. Crockett in Chicago, with Peter Elstner in New York

How Motorola Missed the Mark

CUSTOMER

**PRIMECO
PERSONAL
COMMUNICATIONS**

**BELL
ATLANTIC**

AMERITECH

U.S. CELLULAR

PROBLEM

Equipment problems in 1997-98 result in its network shutting down for up to two hours. PrimeCo drops Motorola's equipment in favor of Lucent's gear.

In early 1996, the carrier asked both Lucent and Motorola for equipment to help prevent fraud. Lucent provided the technology within three months. Motorola took a year—and Bell Atlantic still isn't completely satisfied with its product.

In 1995, the Baby Bell told Motorola, which supplied most of its wireless phones, that it wanted to move to digital equipment. When Ameritech launched its digital network in spring 1997, Motorola still didn't have products ready. Ameritech turned to other suppliers, including Qualcomm and Sony.

The carrier is forced to test four batches of Motorola's digital wireless phones over a six-month span before they finally work. Meanwhile, similar phones—all used in its Tulsa (Okla.) market—have been supplied by rival Nokia for two years. U.S. Cellular still can't get digital phones from Motorola for its Knoxville (Tenn.) and Yakima (Wash.) markets.

Network Superiority



There's a
different
kind of
Internet
network.
Where
compromise
is not an option.
And **innovation**
never stops.

When you're operating a network built exclusively to meet the demands of business, you can't be anything less than fanatical about technology and service. You create an advanced architecture for unrivaled performance, and room for growth. You make it fully redundant for maximum reliability. You deliver unmatched local access with over 850 points-of-presence. Then you get the best minds in the business to monitor and support the network around-the-clock. At UUNET®, we're continuously redefining what business-class Internet access means. Is this obsession? Perhaps. But it's why more companies choose us than any other Internet provider. Call 1 800 265 0479 www.uu.net/bw13



6 5600 Web Hosting: 1 800 258 4039 VARs/Resellers: *1 703 208 5269
ET Technologies, Inc., a subsidiary of WorldCom, Inc.
served. The UUNET logo is a registered trademark.

FREE TO BW SUBSCRIBERS!*

The Web site of the world's most widely read business publication



BW PLUS!

Business Week and online-only content, including: Best B-Schools; The Computer Room; Enterprise (for small business); Investors Central; and more

ARCHIVES

All Business Week domestic edition issues back to January, 1991. Fast free searches! A small payment is required only when you decide to view an article

CURRENT ISSUE

The complete contents of all domestic and international editions. Includes all graphics and tables, and selected photos

Plus, we often include longer versions of printed features and original material created exclusively for online readers

Posted on Thursday evening, well before the printed magazine hits newsstands

REGISTER | BW CONTENTS | BW PLUS! | BW DAILY | ARCHIVES | CONTACT US | AD INFO

COVER STORY

No longer the wunderkind, Andersen is out there, but he's not himself all over again

ADS AND Rx'S

Why... and how... have... cheaper and safer ones

GROVE'S QUEST

In a Q&A, Intel's CEO tells why he's trading the daily grind for the big picture

THIS WEEK



YOUR MONEY

Robert Barker looks at Tom Herzfeld's second fund that focuses on Cuba

DAILY BRIEFING

The Citi-Travelers roundup: What's left for investors? George Lucas taps Fox

FIND YOUR FUND

BW's interactive Mutual Fund Searcher is now updated with new data!

YOUR MONEY

Regular columnists provide in-depth coverage of investing and personal finance

DAILY BRIEFING

News flashes, Q&As, commentaries; market info from S&P MarketScope and S&P Personal Wealth and much more

FIND YOUR FUND

Our mutual fund database has extensive performance and portfolio data, and Business Week's ratings on 4,000 funds. Updated monthly!

CAREER CENTER

We'll help top-notch talent find top-quality jobs, confidentially and free. And for employers, it's far better than want ads

COMPUTER BUYING GUIDE

Maven, our interactive guide, offers objective computer reviews and rankings based on tests performed by NSTL

TRAVEL CENTER

Meets all your travel needs: Reservations and tickets for flights, cars, and hotels. E-mail notification of low-fare deals. And much more!

*Go to www.businessweek.com, register, and enter a 9-digit code from your mailing label. **Plus:** If you would like to become a subscriber, you can register and subscribe on the Web site—and get *immediate* access to BW Online.

Most read. Best read. Worldwide.
www.businessweek.com



A special version of Business Week is available on AOL at Keyword: BW

Women of childbearing years need folic acid every day. Because you never know who'll be stopping by. Some pregnancies are planned. Some come as a surprise. That's why all women need folic



acid in their diets before they become pregnant, to help reduce the risk of certain birth defects. The March of Dimes recommends getting 4 milligrams of folic acid every day before and during the early weeks of pregnancy. Folic acid can be found in some foods such as cereals, leafy vegetables, beans and citrus fruits. A daily multivitamin is always a very reliable source.

March of Dimes

Think ahead for a healthy baby.

For more information contact your health care provider or call the March of Dimes.

ens region
Honda inaugurates
new Dubai complex

Pioneer upgrades JAFZ opera

West LB opens Dubai office

Samsung serv
to cover 68 coun

Senao sets up JAFZ
telecoms factory

Many of the
biggest names in business
are growing bigger
in Dubai.

Nestle to make ice cre
Dubai joint venture

Marks & Spencer to
launch Gulf stores
Acer to expand
assembly opera

Boeing to locate regional
spare parts centre in Dubai

Dexion establish
regional office

BMW opens D 60 mn showro

FedEx to build air
cargo terminal

Join them.

And hit the headlines.

Toshiba subsidiary
in Free Zone

Berger oper
factory in D
Ericsson opens regional

To find out how your company can profit from doing business
in one of the world's most dynamic commercial centres,
fax this coupon to (215) 751 9551 or (310) 752 4444.

NAME _____
TITLE _____
COMPANY _____
ADDRESS _____
TEL _____ FAX _____



GOVERNMENT OF DUBAI
Department of Tourism and
Commerce Marketing

East and Central USA: 8 Penn Center, Philadelphia PA 19103, USA. Tel: (215) 751 9750. Fax: (215) 751 9551.
West Coast: 901 Wilshire Boulevard, Santa Monica, California, CA 90401, USA. Tel: (310) 752 4488. Fax: (310) 752 4444

telecoms factory
Dubai joint

ORNING IN AMERICA, 98-STYLE

's Democrats who are calling for go-go growth

years ago, the economic bat-
tary of the Reagan Revolution
growth—and the faster the
e supply siders who descended
ngton in the early 1980s ar-
big tax cuts would spur capi-
ment, which, in turn, would
economy into a growth frenzy
nce the 1960s. America's prob-
d be swept away by a power-
prosperity. As Ronald Reagan
throughout his Presidency:
s best days lie ahead."

the cry for supercharged
s beginning again—only this
e of the most enthusiastic voi-
to liberal Democrats. While
mistic rhetoric echoes the Re-
of the early '80s, these
s favor vastly different poli-
ganites pushed tax cuts and
g increases in defense spending
purchases of capital equip-
stifying all of it with rosy pre-
or the economy.

THE ENVELOPE. Pro-growth
s argue that government in-
should be targeted to human,
cal, capital. And to move the
to a higher growth plane, they
nd billions of federal dollars on
job training, research and de-
t, and public infrastructure.
en argue that government
ash income and payroll taxes
ce them with a levy on carbon-
els—a step they claim would
erate faster economic growth
ollution. Most controversial of
re insisting that a strong econ-



THE GIPPER: Inspiring liberals?

omy makes radical reform of Social Se-
curity unnecessary and imprudent.

House Democratic Leader Richard
A. Gephardt (D-Mo.) is becoming the
most visible advocate of go-go economics
as he plans his race for the Presidency
in 2000. In a little-noted speech last De-
cember, Gephardt said: "We cannot be

the party of fairness without being the
party of growth. We need to push the
envelope of growth beyond what has
been acceptable to the status quo."

A cadre of liberal economists, includ-
ing Barry Bluestone of the University of
Massachusetts, Bennett Harrison of the
New School for Social Research in New
York, and James K. Galbraith of the
University of Texas, are providing the
intellectual foundation for Gephardt's
case. Insists Bluestone: "It is precisely
by arguing for policies that will assure
faster growth that we can encourage
our redistributionist agenda."

Pro-business Democrats such as
Senator Joseph I. Lieberman (D-
Conn.) have been making their own
growth argument for years. But such
optimism doesn't come easy to the
left—which for decades has tended
to see the economic glass as half-
empty. Even as a Democratic Presi-
dent presides over a powerful ex-
pansion, many liberals are focused
on the problem of income inequality.
Says Will Marshall, president of the
Progressive Policy Institute, a cen-
trist Democratic think tank: "The
left seems to wish for bad news."

The New Growth Democrats are
trying to break that mold. They still
worry that the current boom has dis-
proportionately benefited the rich.
But unlike other liberals, they be-
lieve a powerhouse economy is the
best way to spread the wealth.

Just as Republicans insisted that
deficits shouldn't get in the way of
their tax cuts, these Democrats say a
drop of red ink is a small price to
pay for new education spending. The
drive for a balanced budget, they ar-
gue, has been misguided. "We've re-
ally been off on a fiscal policy fetish,"
says Galbraith. "There isn't a school
district in Texas that doesn't issue debt.
Why the federal government shouldn't
is beyond me."

Most Democrats agree that govern-
ment should spend more on education,
roads, and bridges. Even President Clin-
ton argues that balancing the budget
by cutting such programs would slow

THE REAGANITES BELIEVED:

- Supply-side tax cuts would lead to a capital spending boom and a surge in growth
- Short-term deficits don't matter
- A booming U.S. economy could bankroll huge tax cuts and massive hikes in defense spending

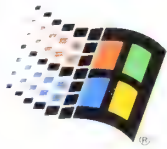
NEW GROWTH DEMOCRATS BELIEVE:

- New spending on education, training, and R&D will lead to an innovation boom and a surge in growth
- Short-term deficits still don't matter
- A booming U.S. economy could finance Social Security through the retirement of the baby boomers

e
levers
n
Now



Limited Time Offer



Get Windows 98 Upgrade*

Now there's a new way to carry your most vital information with you anywhere—with Palm PCs powered by the Microsoft® Windows® CE operating system. Featuring a familiar interface, all designed for a small, lightweight package that lets you keep connected when you're on the go.

Put Windows in the palm of your hand— and get your hands on Windows 98 Upgrade!

You'll like the way Palm PCs keep you effortlessly up-to-date. Because of Microsoft ActiveSync™ technology, your Palm PC files stay continuously and automatically in synch with your desktop PC. Just connect your Palm PC to your computer, and it does the rest, updating your contacts, calendar, tasks, e-mail and notes. And entering data is a cinch, whether you handwrite notes, or use the voice recorder or on-screen keyboard.

Whether your Windows-based world includes a network, a desktop PC, or a laptop, you'll want the palm-sized unit that best connects with it all. Look for the logo that says

"Powered by Microsoft Windows CE" to ensure secure access to every Windows-based device.



When you purchase a Palm PC powered by Windows CE between May 1 and June 30, 1998, you are eligible to receive a coupon worth approximately \$109 to get Windows 98 Upgrade when available*. Please see your local reseller for details. For more information about the companies that provide Palm PCs powered by Microsoft Windows CE, go to www.microsoft.com/windowsce/palmpc/.

growth. So he has proposed billions of dollars in new money for them.

But taking the next step and busting the budget—even for education—troubles many Democrats. They remember that Reagan kicked growth up to 3% a year, but at the cost of deficits that exceeded 5% of gross domestic product. Lawmakers such as Representative Charles W. Stenholm (D-Tex.) have built their careers as Democratic deficit hawks and don't want to see the party abandon its hard-won fiscal credibility, even as the federal budget heads toward a short-term surplus.

And while mainstream Democratic economists favor increased education

Hike output a little, say the New Growth gurus, and Social Security's problems disappear

spending, they reject efforts to paint a booming economy as a panacea. Says Brookings Institution economist Isabel V. Sawhill: "It is quite irresponsible to say that growth is going to solve our economic problems."

NO CRISIS. Maybe not all of them, but the New Growth gurus think it will fix one of the biggest. While Clinton and many Democrats are joining the debate over how to restructure Social Security, these Democrats insist that such a step is a fool's errand. There is no crisis, they argue; a small hike in the rate of economic output will be more than enough to finance baby boomers' retirement. Says Bluestone: "If you get maybe a 0.5% increase in productivity and more labor supply growth, the Social Security crisis turns out to be nonexistent."

Indeed, Gephardt and Bluestone claim that if the economy grows by 3% annually over the next decade, rather than the 2.3% predicted by the Administration, the nation would generate an additional \$3.1 trillion. And that, Gephardt said in December, would be "enough to keep Social Security solvent; enough to invest all we need in our children's schools and our people's skills."

It is an enticing message. No longer would Democrats need higher taxes to finance their priorities. And while the GOP is tangled in an ugly debate over social issues, Democrats might even hijack economic optimism. "Morning again in America" has a pretty nice ring to it.

By Howard Gleckman in Washington

COMMENTARY

By Richard S. Dunham

IS THE GOP THE ONLY PARTY OF BUSINESS?

For decades, Corporate America didn't need a scorecard to tell its friends from its enemies. The Democrats would berate companies for exploiting workers, despoiling the environment, and abandoning communities. The Republicans—the party of Big Business—would always be there to fend off a new regulation, counter a union assault, or back an important trade deal.

Well, it ain't that simple anymore. Many Republicans who have come to Washington in recent years are social conservatives whose priorities are abortion curbs, school prayer, and human rights abroad—not trade, growth, and open markets. At the same time, plenty of newly elected Democrats are boosters of free trade and fiscal discipline.

That's why corporate lobbyists are rethinking the assumption that a Republican is inherently more dependable than a Democrat. A Mar. 5 memo by the Business-Industry Political Action Committee (BIPAC)—a corporate lobbying coalition—suggests that now would be a good time for business to end its cozy relationship with the GOP and support candidates in both parties who share its worldview.

Entitled "Broken Premises," the memo laments "the very mixed message the business community has been receiving from Republican leaders and members of Congress." BIPAC notes that of 40 House members who opposed such business priorities as fast-track trade authorization and most-favored-nation trade status for China, 23 were Republicans. Yet all but two had extracted megabucks from business PACs.

The New Economy has a lot to do with where business support lies these days. In the past, when labor and

management were constantly butting heads, pro-union Democrats were the clear enemy. But as internationalism, immigration, and trade become more important to companies, many Democrats can be counted on to take the business line. Example: When it comes to giving the International Monetary Fund an extra \$18 billion to cope with the Asian crisis, Democratic leaders

are more supportive than their GOP counterparts. "Unfortunately, some in Congress want to use the IMF and other trade bills to further narrow political, moral, and religious issues," complains Senator Pat Roberts (R-Kan.).

Even the U.S. Chamber of Commerce has taken note of the emerging generation of New Democrats. Although only 10 House Democrats won early endorsements from the

Chamber this year, eight are first-termers.

On the other side of the aisle, no Democratic pollster Mark Mellman "There is a war going on. For a lot of these new Republicans from the radical right, their only business experience is as a checkout clerk in a religious bookstore." That's hyperbole, it's a view shared by a growing number of Establishment Republicans. "Conservatives who care more about social agenda will have a harder time getting business support than they have in the past," warns one PAC manager. "If it's a social agenda they want, let them look to the social conservatives for support."



Dunham covers politics in Washington

GII Awards honor the people
in all areas of society and
industry who use the
Internet & network technology
to produce amazing results.



from making money to making a
difference. See how the GII
Winners do it by visiting
our Web site at www.gii.com
or call 888.282.0809.

Need a good role model?

We've got 11 of the
best in the world.

Thanks to these leaders who made the Third Annual GII Awards possible:

COMPAQ

CITIBANK

GATEWAY2000

IBM

Intel

MCI

ANDEM

UNINET

BusinessWeek

Presented by: ZD ZIFF-DAVIS

© 1998 PeopleSoft, Inc. PeopleSoft and the PeopleSoft logo are registered trademarks of PeopleSoft, Inc.



Something as intricate as your supply chain cannot be easily simplified. But PeopleSoft Supply Chain Management can introduce some sanity into the process. It encompasses everything from forecasting customer demand to delivering

ON A RELATED TOPIC, HOW'S YOUR SUPPLY CHAIN?

products on time. What's more, our experience across the entire enterprise allows you to integrate all aspects of your global supply chain, uniting your front and back offices. All you have to do is take the next exit: www.peoplesoft.com/sc or 1-888-773-8277.



We work in your world.

Developments to Watch

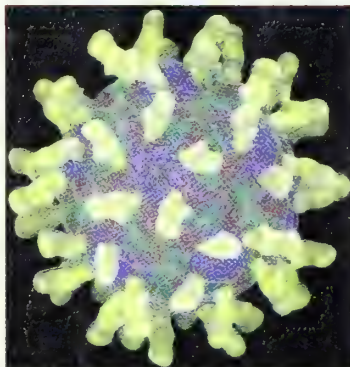
EDITED BY OTIS PORT

THE COMMON COLD COUGHS UP A CLUE

THE VIRUS THAT CAUSES MOST COMMON COLDS HAS thwarted all attempts at treatments and vaccines. Nonetheless, many scientists hope the scourge can be tamed once they discover the molecular details of how the virus does its dastardly work. And a key piece of the puzzle has just fallen into place after more than a decade of painstaking research.

In 1986, Michael G. Rossmann, a Purdue University biologist, discovered the surface of the cold virus has canyonlike depressions. Other scientists then found that the virus enters human cells through a "back door" on the receptor normally used by white blood cells when a cell has been injured. Now, Rossmann and colleague Jordi Bella have mapped the structure of this receptor—the key part is shaped like a hand with three fingers and a thumb—and they have shown how it binds to the virus.

The canyons on the virus dovetail with one of the three fingerlike projections, they report in the Apr. 14 *Proceedings of the National Academy of Sciences*. Importantly, this finger is not used by white blood cells. That boosts the chances of designing a drug that would nestle on the finger and block infection. Because white blood cells could still gain access, says Bella, the drug shouldn't cause serious side effects. *John Carey*



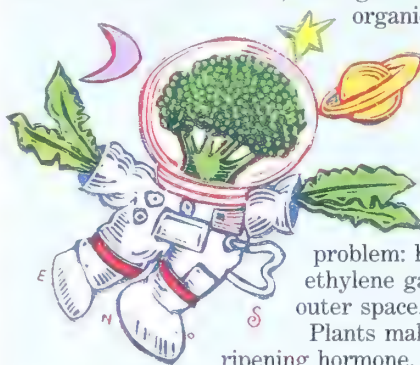
A SHARPER LOOK FOR THOSE TINY SCREENS

TO MAKE FLAT SCREENS FLAT, engineers have dreamed up many alternatives to liquid crystal displays (LCDs). Recently, the hottest work has been in organic light-emitting diodes. OLEDs are close cousins of LED watch displays, but in place of hard semiconductor crystals, they use flexible films. LEDs emit light like tiny bulbs, so they are brighter and more efficient than LCDs.

In mid-April, scientists unwrapped prototypes at a meeting of the Materials Research Society in San Francisco. Dow Chemical Co. unveiled a polymer OLED with molecules that contain fluorene, and Dow's collaborator, Siemens, showed a small display suitable for cellular phones. Lucent Technologies, Sony, and TDK also showed off OLED prototypes. In addition to better performance, these screens promise to be easier than LCDs to manufacture. *Neil Gross*

GREEN THUMBS IN ORBIT

SCIENCE AND SERENDIPITY MAY SOON BRING FRESHER fruits and vegetables to grocery store shelves. University of Wisconsin environmental engineer Marc A. Anderson has been working with devices that use catalysts, such as titanium dioxide, and light to detoxify noxious



organic substances such as dry-cleaning fluids. When colleague Raymond J. Bula heard about Anderson's research, he realized it solved another pressing problem: how to remove ethylene gas from gardens in outer space.

Plants make ethylene as a ripening hormone. But too much causes fruits to spoil prematurely and can even kill the plants. Bula and Anderson built a gadget for NASA that blows air over a titanium dioxide film, which, triggered by ultraviolet light, breaks down any ethylene into carbon dioxide and water vapor. The device has flown on the space shuttle.

However, Anderson became convinced the system had far broader potential here on Earth. By slowing the spoilage of fruits, vegetables, and flowers in stores, it could save hundreds of millions for industry. So he cold-called people in the field—and finally found an eager buyer in KES Irrigation Systems Inc. The Kennesaw (Ga.) company plans to unveil a prototype in May. *John Carey*

COMING NEXT MONTH: BETTER WEATHER MAPS

WEATHER PERMITTING, satellite launch schedule May 13 will help boost accuracy of weather forecasts, says the National Oceanic and Atmospheric Administration. NOAA's new eye in the sky, dubbed NOAA-K, will be the first of five new "birds" with improved instruments that will not only do a better job of watching atmospheric conditions on but also provide accurate data on snow and ocean temperatures.

The result, NOAA promises, will be improved long-range forecasts—and, with the aid of an enhanced meteorological computer model that will be online in April, earlier warnings of potential floods, storms such as tornadoes, and clear-air turbulence. The time for flash-flood warnings has already more than doubled since 1994, to roughly 40 minutes. And today's 40-day forecasts are far more accurate than the three-day forecasts of a decade ago. NOAA's National Weather Service.

NOAA-K will orbit the Earth every 102 minutes. From a relatively low perch of 516 miles up, the \$177-million satellite will beam sharper images of clouds, as well as snow, ice, and vegetation. It will also take temperature and humidity readings of the atmosphere from level up to 24 miles, plus monitor dust and other particles in the air. After additional computing power comes online about 2001, NOAA expects dramatic improvements in weather maps. Most of America will be covered by a grid with 4-kilometer squares—down from the current 40-km grid—and violent storms will have grids.

EXECUTIVE SUITE



TALK WITH TROTMAN

Ford's chief sees flat prices, with cost-cutting the surest way to boost income

Ford Motor Co. earned a record \$1.7 billion last year, and Chairman Alexander Trotman is sitting on a cash pile of \$21.3 billion. For the No. 2 carmaker to win some deals in Asia? Perhaps. In an interview with *BUSINESS WEEK*, Trotman said it's possible that Ford could increase its 33.5% interest

in Japan's Mazda Motor Corp.

But first, Trotman must contend with what he predicts will be a deluge of competing vehicles sold in the U.S. by Japanese and Korean companies. Pricing pressures are brutal—Ford's North American vehicle sales were down in the first quarter, and its revenues fell 2%, to \$37.6 billion. Still, Ford man-

aged to boost its operating income 15%, to a record \$1.7 billion, mostly thanks to sales gains in Europe and relentless cost cutting—a process, Trotman says, that will never end. What follows are edited excerpts from the interview.

Q: These certainly seem like bountiful times for Ford. What's your biggest challenge to keep them rolling?

A: The major business factor that is not widely talked about and not well understood—and it pertains not only to automobiles, but to many other business sectors—is we're now into a flat-revenue world and that is driving consolidation in many sectors of business, not only in America, but around the world.

We saw it a few years ago when we really set out to become substantially more competitive than we were—to drive costs out of our business and become more efficient. We're about three or four years into that major reprocessing [known as Ford 2000]. I'd characterize our progress as four or five on a scale of 10. We'll never get there on the cost sense, because we have to drive it down forever. [Ford cut a record \$3 billion in costs in 1997 and is targeting another \$1 billion in 1998.]

We'll take revenue if we can get it. But we're certainly not banking on revenue to drive our performance or to be a major contributor to our performance.

Q: Why can't you raise prices?

A: It's about a real mean customer. The [cost] of survival in the auto industry will grow substantially as the customer gets meaner and meaner and refuses to pay for new widgeits. Prices aren't going up—but customers are buying champagne instead of beer.

Q: Do you see any signs that the boom in sport-utility vehicles, minivans, and pickup trucks is slowing?

A: Not that I can see. Trucks are going to go over 50% of the market in the next year or two. I don't share the worry that some people have that we're going to wake up one day and there will be a huge reversal to traditional cars. I don't think that's going to happen because vehicles like Explorers are not trucks, they're Explorers as far as the customer is concerned.

The so-called truck business is in the process of enormous fragmentation, like the so-called car business went through for 20 or 30 years. Over the next 10 years, you'll see all sorts of iterations of trucks, right down to very small ones that are off car frames and all the way

THE 1998 NINTH ANNUAL

Business Week Awards for Instructional Innovation: Schools of Character

BUSINESS WEEK and The McGraw-Hill Educational and Professional Publishing Group in collaboration with The Character Education Partnership of Washington, D.C. selected 10 winners from schools with a character-driven curriculum. The awards honored ten schools that have:

- promoted caring, honesty, fairness, responsibility, and respect in all phases of school life and curriculum
- developed students' commitment to living and acting in accordance with these core ethical values.
- involved parents and other adults in building caring communities
- developed adaptable and/or adoptable character education initiatives
- demonstrated positive changes in student behavior and academic performance

The winning schools have each received a \$2,000 grant, of which \$1,000 is an honorarium to the institution for its dedication to character education. The remaining half will cover expenses, as each school shares its winning approach at workshops and conferences with other educators throughout the nation.

For more information on these schools' methods, you can request a copy of **Schools of Character**, published by the McGraw-Hill Educational and Professional Publishing Group. Please contact Charlotte K. Frank, Vice-President, Research and Development, The McGraw-Hill Companies, 1221 Avenue of the Americas, New York, NY 10020. Phone: 212 512-6512; fax: 212 512-4769.

Research support by Boston University's Center for the Advancement of Ethics and Character



EASTERBURG PRIMARY SCHOOL
MARION, SOUTH CAROLINA



MOUNT FORT MIDDLE SCHOOL
OSBEN, UTAH



MOUNTAIN POINTE HIGH SCHOOL
PROCTOR, ILLINOIS



BIRCH WOODS MIDDLE SCHOOL
GEORGETOWN, MARYLAND



RUTLEDGE HIGH SCHOOL
MARKLAND HEIGHTS, MISSOURI



NEWCOME PARK ELEMENTARY
NEWPORT NEWS, VIRGINIA



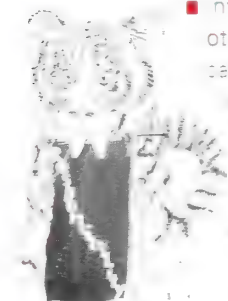
THE BENJAMIN FRANKLIN CLASSICAL CHARTER
SCHOOL, FRANKLIN, MASSACHUSETTS



MADISON MIDDLE SCHOOL
DALLAS, TEXAS



HENRY WOOD ELEMENTARY
LOUISVILLE, KENTUCKY



SPONSORED BY BUSINESS WEEK
AND MCGRAW-HILL

INTERNET BUSINESS DIRECTORY

Business Week advertisers on the Web:

Computer Associates
www.cai.com
Compuware Corporation
www.compuware.com
Continental Airlines
www.flycontinental.com
Dale Carnegie Training
www.dale-carnegie.com
Dana Commercial Credit
www.dana.com/dcc
Delta Air Lines
www.delta-air.com
Digital PC
www.windows.digital.com
Diners Club International
www.dinersclub.com
J.D. Edwards & Company
www.jdedwards.com
EMC
www.emc.com
Ericsson
www.ericsson.se
E*TRADE
www.etrade.com
Equitable/AXA
www.equitable.com
Federal Express
www.fedex.com
Fidelity Investments
www.fidelity.com
FileNET
www.filenet.com
FlexiInternational Software
www.flexi.com
Ford
www.ford.com/
France Telecom
www.francetelecom.fr
Fujitsu
www.fujitsu.com

Fujitsu PC Corporation
www.fujitsu-pc.com
Gateway 2000
www.gateway.com
GE Information Services
www.geis.com
General Motors
www.gm.com
GTE
www.gte.com
Hammermill
www.hammermillpaper.com
Hewlett-Packard
www.hp.com
Hitachi
www.hitachi.com
Honda
www.honda.com
Hyatt Hotels Corporation
www.hyatt.com
Hyperion Software
www.hysoft.com
IBM
www.ibm.com
International Paper
www.ipaper.com
Iomega
www.iomega.com
JBA International
www.jbaintl.com
Lawson Software
www.Lawson.com
Lexus
www.lexus.com
Lincoln-Mercury
www.lincolnm Mercury.com
Lotus
www.lotus.com
Lucent Technologies
www.lucent.com
MCI
www.mci.com
Mercedes-Benz
www.usa.mercedes-benz.com
Merrill Lynch
www.ml.com/
Microsoft
www.microsoft.com/
Mississippi Power
www.mspower.com/ecodev

MITA
www.mita.com
Mitsubishi Motor Sales of America
www.mitsucars.com
NCR
www.ncr.com
Norfolk Southern
www.nscorp.com
Nortel
www.nortel.com
Northwest Airlines
www.nwa.com
Novartis
www.novartis.com
Okidata
www.okidata.com
OPEL
www.opel.com
The Panasonic Personal Computer Company
www.panasonic.com/ruggedpc
PeopleSoft
www.peoplesoft.com
Praxair
www.praxair.com
PSINet
www.psi.net/
QUALCOMM
www.qualcomm.com/cdma
Republic National Bank
www.rnb.com
Ricoh Corporation
www.ricoh.com
Roberts Express, Inc.
www.roberts.com
Royal Insurance
www.royal-usa.com
SAP
www.sap.com
SAS Institute
www.sas.com/
Savin
www.sales@savin.com

Charles Schwab
www.schwab.com
Seagate
www.seagate.com
Sharp
www.sharp-usa.com/
Siemens Corporation
www.siemens.com
Siemens Microelectronics
www.smi.siemens.com
Sprint
www.sprint.com
Sun Microsystems
www.sun.com
Symbios Logic
www.symbios.com/bw.htm
TIBCO
www.tibco.com
Tivoli
www.tivoli.com
Toshiba America Information Systems
computers.toshiba.com
Toyota in America
www.toyota.com/usa
Toyota Motors
www.toyota.com
T. Rowe Price
www.troweprice.com
United Technologies
www.utc.com
UPS
www.ups.com
US Airways
www.usairways.com
UUNET Technologies
www.uu.net
Visio
www.visio.comp
Vizio
www.vizio.com
Xerox
www.xerox.com

BusinessWeek

www.businessweek.com

Your Ad

212-512-4851

Management

up to the big ones like you see today—maybe even bigger ones than you see today. We'll do all of them for every person in every size requirement.

Q: Are car buyers loyal to a particular brand anymore, so that they start with a Ford and work up to a Lincoln?

A: As the world is becoming more competitive, brand loyalty is waning. I'm not talking about Ford, but for anything—in fashions, in consumer goods, in automobiles. It's less and less likely that somebody says: "My family is a brand-X family. We've always had brand X and my dad had one, and, by God, I'm a brand-X guy." That's the way it was in America 20 years ago, but less and less is that the case today. Now, it's: "I'm not a brand-anything guy. I'm going to buy the mousetrap that I like if it's the right value and quality. I don't care if I used to buy it or not."

Q: How does that affect your planning?

A: It incentivizes us to be more competitive in terms of value and technology. And to recognize the necessity to produce exciting new types of products that will grab these people who are becoming more and more fickle. You can't say, "Well, I have an Explorer now and it's selling 400,000 a year; that's terrific, I'll sit in it forever." That doesn't work because you know 16 other people are chasing the Explorer.

Q: So then does the brand become Explorer, rather than Ford?

A: Yes, we've talked about that a lot. Some of the products are so strong, like Mustang, that Mustang almost becomes the brand. It's not a Ford, it's a Mustang. The Explorer is almost in that category. And the Navigator almost is not a Lincoln Navigator; it's a Navigator.

Q: Do you still feel like you need a vehicle at every point of the spectrum of car buyers, from entry level on up?

A: No. It's desirable, but we don't have to. If we can't make business sense of it, we won't have it. We had an Aspire [entry-level small car] until last year and we dropped it. We just simply can't find a way to make good business sense of it in the U.S.

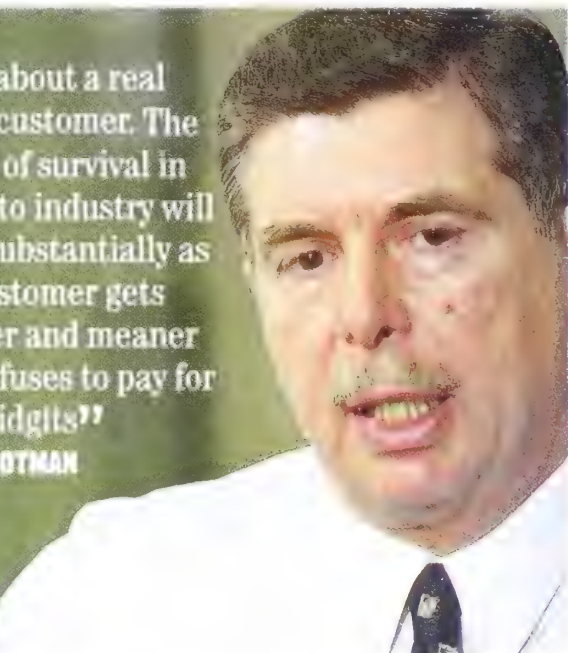
Q: Other U.S. companies are increasing

their investments in Asia. What is Ford waiting for?

A: We're not waiting. We're very well connected, and we have quite a few people on the ground in Asia... We're very alert to what's going on in Korea and what's going on in Japan. We have a controlling interest in Mazda today and with the yen [at a weak 132 to the dollar], if bargains emerge, we certainly would consider them.

"It's about a real mean customer. The [cost] of survival in the auto industry will grow substantially as the customer gets meaner and meaner and refuses to pay for new widgets."

ALEX TROTMAN



Q: Is there anything preventing you from buying all of Mazda's stock?

A: I'm not aware of any Japanese or U.S. government restrictions that would prevent that.... Down the road, if Mazda were to become a much more profitable company than it is today, then 100% [ownership] would be more advantageous than 33.5%. Mazda's performance is improving from a very weak position a couple years back, and I expect it will continue to improve. We have no plans to increase our equity stake today, but we certainly are not ruling out any options.

Q: Will the weak yen let the Japanese gain more of the U.S. auto market?

A: We're going to face increased pressure in Western Europe and North America from the yen because they're suffering so heavily in their region. Their solution, as always, is: Let's get the ships loaded up and send them to Europe and America. We're going to see very substantial trade difficulties this year between Japan and the U.S. as the deficit grows.

Q: Do you think the Japanese want

market share as much as they

A: They want it more now. [Toyota Corp. President] Mr. [Hirosada] is frequently saying he will grow and knock off Ford as the world. I hope he keeps saying that because it motivates us to work. When all of our work force really energizes them to come to the next day even more determined.

Q: Has Ford picked up the U.S. share lost through the yen?

A: If you look 10 years, you could say we have funded all the growth in America. In the long haul, Ford was probably a quarter of the market went down to 10%, we're back to a quarter was at 50% or so and at 30%. And the companies, of course, have contributed nothing to [making] the difference. I'd like to see we gained by not buying Ford. It's something of an achievement, perhaps we managed to do it when you look at what happened around us in the past 30 years. It's bad.

Q: Is the global playing field

A: It's fairly level, in the sense of open markets. There aren't any restrictions to the free flow of manufactured goods. There's China, and places in the developing world where there are still major barriers to the free flow of goods. But in the markets of Europe, North America, Japan, it's pretty open.

Q: That's the kindest thing anyone from Detroit say about

A: Well, with the [exception] of the yen, and there are some restrictions on parts.... The issues are still difficult. But the big tariffs and no big barriers to vehicles to Japan.

Q: Then why aren't you selling more than the 35,000 vehicles you sold in Japan last year? [That's a record from 1996.]

A: The [Japanese] economy is in a very bad shape. It is a very difficult and nationalistic market. It's hard market to penetrate. We're going to keep driving at it.

Documents are digital. Documents are paper.

**Attach this Xerox printer
to your network and
you'll staple and collate at
32 pages per minute.**

**We'll understand if you
think it's a copier.**



The Xerox DocuPrint N32 starts at \$2,900.

Getting your electronic documents into paper form should be easier. And now it is. With the Xerox DocuPrint N32, we're bringing our expertise in making copies to network printing. So now you can print, collate and staple two-sided sets of documents at breakthrough speeds right from your desktop.

The DocuPrint N32 is modular. So you can add a stapling finisher, duplexer, or a 10-bin

mailbox to the \$2,900 base model anytime you want—just pay for what you need. And its new WorkSet technology lets you print multiple sets of documents with a single instruction without clogging the network.

To find out more about our innovative family of network printers, visit our website at www.xerox.com/new. Or give us a call at 1-800-34-XEROX, ext. 2939.



THE DOCUMENT COMPANY
XEROX

CEO Summit

The New Rules: Mastering the Challenges of the New Economy

America has witnessed an economic revolution. The result: a radically different economy in which the "digital industries" set the pace and old habits of business are replaced by new skills.

In September, *Business Week* will bring together today's most prominent business leaders to consider the challenges executives face in this transformed business world. These economic pioneers will relate practical and hard-won knowledge as they redefine economic theory and business practices for today's chief executive.

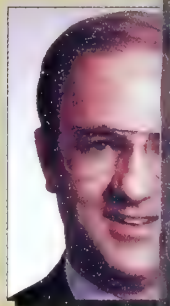
Join us at *The 1998 Business Week CEO Summit* and learn how to play – and win – by the new rules.

Presented in association with

THE BUSINESS ROUNDTABLE 



SANFORD WEILL
*Chairman & CEO,
Travelers Group*



RANDALL
*Chairman
Eli Lilly*

SEPTEMBER 23-25, 1998

THE RENAISSANCE MAYFLOWER HOTEL
WASHINGTON, D.C.

BusinessWeek

Most Read. Best Read. Worldwide.

SPONSORED BY

BAIN & COMPANY, INC.

MISSOURI DEPARTMENT OF ECONOMIC DEVELOPMENT

PEOPLESOFT, INC.

WITH SUPPORT FROM

WHARTON EXECUTIVE EDUCATION

produced with the cooperation of

CONGRESSIONAL QUARTERLY

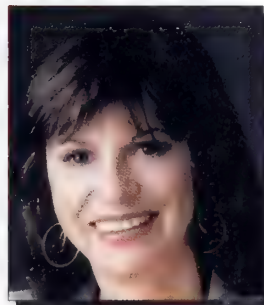
Featured Speakers



DONALD FITES
Chairman & CEO,
Caterpillar;
Chairman,
Business Roundtable



JOHN CHAMBERS
Chairman & CEO,
Cisco Systems



ANTHEA DISNEY
Chairman & CEO,
News America
Publishing Group

TO REGISTER OR FOR MORE INFORMATION ON:

The Business Week CEO Summit, please contact Julie Terranova, Registration Manager

PHONE: 888-239-6878 • FAX: 212-512-6281 • E-MAIL: jterranova@businessweek.com

FAX ON DEMAND: 888-239-6878 Document #20

Attendance is limited to CEOs, Presidents, and Chairman of leading corporations.



The McGraw-Hill Companies

BRANDING

DILBERT TO THE RESCUE

Office Depot puts a face on a faceless business—and thrives

Reviewing ad-agency pitches last August, Office Depot Inc. Chief Executive Officer David I. Fuente was looking for a big splash. The company had abandoned national advertising for months, hoping to consummate its merger with rival Staples Inc. But the marriage never happened, and Fuente needed to recreate a solo image. After seeing an initial pitch by Cleveland-based Wyse Advertising Inc., he startled everyone in the conference

faceless business of selling office supplies. By licensing Dilbert and his popular comic-strip cohorts to anchor its \$100 million-plus annual marketing budget, Office Depot is counting on "star power" to distinguish itself in a cutthroat market largely driven by price.

Why the need to stand out in the crowd? The problem is, consumers can't distinguish among the three major players, says Howard A. Zoss, execu-

petitive. Retail experts predicted Office Depot would have the toughest time recovering.

Once Fuente realized Office Depot was going to have to fly solo, however, he decided to sign a star—albeit one from the funny pages. To get more customers into its stores, the company is sinking \$30 million into a TV campaign featuring Dilbert and the other characters created by former engineer Scott Adams. And the licensing goes further. Dilbert now graces shopping bags and in-store displays, appears in print and radio ads, and even acts as a virtual guide at the company's newly launched online store (www.officedepot.com). "It's an absolutely copyable message," says Fuente. **HITTING HOME.** Office Depot isn't alone in its branding quest. Staples' recent campaign—which includes a basketball spot depicting dejected shoppers for school supplies—has

drawn raves from OfficeMax, which is spending more to promote its own icon, a stick figure with attitude dubbed StickMax. OfficeMax CEO Michael Feuer says the ads will build brand recognition at a far lower cost than licensing Dilbert. "If it's wildly successful, it's going to get really expensive," he predicts.

For Fuente's money, Dilbert is doing his job—attracting attention. Analysts expect the campaign to serve at one key goal: appealing to rare file workers, which should continue to revitalize Office Depot's corporate sales unit. "CEOs in companies don't buy office supplies," says retail consultant Tom Macdonald. "They're bought by office managers and purchasing agents. People like that see Dilbert, and they come home with them."

Clearly, something is going on. Sales in 1997's fourth quarter—the Dilbert ads began—rose 12% from sales at the company's store delivery centers open more than a year, up 8%. In this year's first quarter, thanks in part to Dilbert, operating profit rose 27%, to \$97.8 million, and sales rose 12%, to \$1.98 billion.

Rivals have certainly noticed. OfficeMax has banned Dilbert products from its stores. "We burned him in effigy the day they signed the contract," says Feuer. But Feuer is musing about a future ad for StickMax in which he challenges Dilbert to a fight. May the best icon win.

By Gail DeGuzman
Delray Beach

ANOTHER BEST-SELLER?

The spokestoon has helped spark a rebound at Office Depot

SALES PER
SQUARE FOOT

DATA: PAINEWEBBER

room when he jokingly picked it up and threw it in the trash. "What else do you have to show us?" he asked Chairman Marc A. Wyse.

Fortunately, Wyse had another idea: a hot business guru whose books topped best-seller lists. Creative director Sharyn Hinman walked in with a six-foot cutout of Dilbert, the cubicle-dwelling cartoon Everyman of business. The proposed tag line: "Business is crazy. Office Depot makes sense." Fuente was hooked. "It was an absolutely perfect fit," he says. "It cranked me up."

STANDING OUT. Can it crank up Office Depot, too? Early signs show the Delray Beach (Fla.) company on the rebound from its nonmerger. But Dilbert is more than an ad campaign—he's also the biggest example yet of the efforts by Office Depot and its rivals, Staples and OfficeMax Inc., to bring branding to what has been the fairly

competitive vice-president of Wyse. When they were all regional chains, that didn't matter. But now, they're going head-to-head nationally. "Differentiation becomes more and more important," says Fuente.

Branding was not Office Depot's first solution to the difficulties of rising competition. In 1996, when its stock slumped in the face of slowing revenues and problems in its corporate-sales unit, it sought a merger with its Boston-based rival. Although smaller, Staples had been rapidly gaining on Office Depot. But the deal was scotched by the Federal Trade Commission last July as anticom-





**BEFORE WE COULD BUILD
HARLEY-DAVIDSON'S
EXTRANET, WE NEEDED
TO GET A BETTER FEEL FOR
THEIR BUSINESS.**

*How do you cut a
claims process from
weeks to three days?
Microsoft's technology
with USWeb's expertise.*

Harley-Davidson® had 600 dealers and a huge paperwork headache to deal with. Warranty claims were taking too long and their dealers were paying the price.

They could have chosen any number of companies to help them, but they came to USWeb®. Why? Because of our strategic expertise, technical knowledge and proven track record. And our partnership with Microsoft®, a leader in Internet technology.

Together, we developed an Extranet that cut Harley-Davidson's warranty claims process from three weeks to three days. Now dealer satisfaction is up because Harley has given them another tool to improve the way they do business with the factory.

Harley-Davidson, Chevron, Polk Audio—these are just a few of the varied companies who've turned to USWeb to gain a competitive edge. And we can do the same for you. We provide custom business solutions—from strategic consulting to architecture planning through complete implementation. Whether it's for an Internet, Intranet or Extranet.

Learn how USWeb can be your strategic partner for the information age. Give us a call or visit our Web site.

**For a free Intranet Planning Pak:
1-888-USWEB-411, EXT.72
www.usweb.com**



USWEB



Microsoft

EDITED BY AMY DUNKIN

FINANCIAL SUPERMARKETS AREN'T SO SUPER

Ever since Travelers Group and Citicorp decided to get together, reams have been written about financial "supermarkets" and their plans for "cross-selling." The latter is a buzzword to describe stock-brokers selling mortgages, insurers flogging mutual funds, and bankers pushing stocks—all on behalf of the

Travelers term life insurance through his or her stock-broker? But Laura Pantaleo, a Salomon Smith Barney senior vice-president in charge of insurance, estate, and trust services, says that "the Travelers' agency system is a totally different distribution system." While a Salomon Smith Barney client might well be a Travelers policy-

cross-selling synergies can be found in that aisle of the virtual supermarket. And the story's the same over at Equitable, the insurance giant that owns the brokerage firm of Donaldson, Lufkin & Jenrette. "One would hope that the [broker] at DLJ would say, 'I know an Equitable agent,' or 'My brother is an Equitable agent,'" a spokeswoman says, but Equitable makes no active effort to sell insurance that way.

Merrill Lynch and most other big securities firms don't underwrite insurance themselves, but instead find quotes for clients from a variety of carriers, such as John Hancock. Insurers and banks offer stocks, mutual funds, central transaction accounts, and charge cards. Yet finding one company that does all things cheaply and well still proved elusive (table).

On stock trades, none of these giant outfits comes close to the prices charged by deep-discount brokers. I asked them for their lowest commission on a simple trade not made electronically by Internet or touch-tone phone but by talking to a broker. The rates ranged from \$110.50 at Salomon Smith Barney to \$29.95 at Citicorp's discount brokerage arm—all well above the \$5 commission experienced investors can get away with at Brown & Co. Securities Corp.

Worse, though, is that the quotes from full-service brokers, which boast the broadest range of investment products, don't mean much. Typically, clients of these firms can demand commission discounts of 30% or so, with better deals going to the best customers. "That's the com-

INVESTING For all the hype, the art of cross-selling insurance, mutual funds, stocks, and banking services is still very much a work in progress

same mega-money-machine.

What hasn't been made clear, though, is whether giving business to one of these one-stop financial companies actually saves money or time. So I decided to go shopping. Could I do any better at the emerging supermarket companies than I've done by picking up my credit card at one place, my checking account at another, and my mutual funds at a third? Should I, in other words, be a crossbuyer?

The answer, I found, is probably no, or at least not yet. For all the hype, the art of cross-selling is still very much a work in progress.

Who would expect, for example, that a client of Travelers' investment subsidiary, Salomon Smith Barney, would have a hard time buying

holder, "we would never [automatically] refer out our client to a Travelers' agent," she notes.

So what would happen? Well, first, your Salomon Smith Barney broker or financial consultant (FC in the new lingo) would help you assess whether you need life insurance. If so, the FC would then ask the firm to search among a dozen insurers it works with, including Travelers, for the lowest quote on a policy best suited to you. "It's a commodity product nowadays," Pantaleo notes, with quotes as readily found on the Internet as elsewhere.

FEW SYNERGIES. Whether this arm's-length arrangement will persist once Travelers and Citicorp have merged into Citigroup, Pantaleo couldn't say. But so far, few



Who Of

COMPANY

STOCK
COMMISSION

BANKAMERICA	\$1
CHARLES SCHWAB	
CITICORP	
FIRST UNION	
MERRILL LYNCH	15
NATIONSBANK	4
TRAVELERS	0

*100 shares of \$50 NYSE-listed
***No points except First Union



mon practice," confirms an executive at one large full-service brokerage. So anyone who isn't savvy enough to ask for a break on the regular commission pays the higher rate—and the brokerage is more than happy to accept the extra money.

Not surprisingly, all the firms offer mutual funds. The difference is how many of what kind and on what terms. Full-service brokers including Merrill Lynch and Salomon Smith Barney offer no funds fully free of transaction charges—except those made available within "wrap" accounts that charge clients a percent or two annually based on the amount of assets in an account.

HIGH RATE. Charles Schwab and some of the banks, notably First Union, have more funds that come without loads or transaction fees. But they might not offer other services or the best terms. Through Schwab, for instance, you can't get a credit card or a mortgage. At First Union, the interest rate paid on cash in its popular Capital Management Account was recently 4.7%—a good bit below the 5.09% paid by Merrill. Meanwhile, you can always call most any no-load fund's toll-free number and buy shares directly at no extra cost.

Conditions on transaction accounts that link to checking, bill paying, and other transactions also vary significantly. Suppose you saw Citicorp's relatively low stock-trading commissions and its competitive 7.125% mortgage rate, and they tempted you to consolidate more of your funds at the bank. Well, prepare for a lot of consolidating. The minimum balance Citi insists on for its CitiGold cash account is no less than \$100,000. Any month the balance drops below that, you pay \$25—an annual rate of \$300. And despite carrying such a large balance, at Citi you still wouldn't find term life insurance in its menu of products. BankAmerica's Master Relationship Account re-

quires \$25,000 to start, but then costs \$20 a month if your balance falls below \$50,000 after one year. Yet unlike rivals, it didn't offer a 15-year \$1 million term policy for a healthy 45-year-old woman. Its maximum face value was \$300,000.

Elsewhere, the minimums are lower, but annual fees—\$85 at NationsBank, \$100 at Merrill—still mean you pay for a consolidated-account statement. Then again, you always have the choice of simply paying bills and writing checks on your pick of hundreds of money-market funds that offer competitive rates while charging no fees.

Consolidating your finances at some of the supermarkets doesn't ensure you'll get a wide and competitive choice of credit cards. While this seems bound to change once Citicorp is folded into Travelers, Salomon Smith Barney doesn't yet offer a true credit card. Instead, its Money Card—a beefed-up debit card—has no assured line of credit. Spending limits are set daily based on how much you have in your central cash account, even though charges are deducted only once a month. Schwab, too, just offers a debit card. At other supermarkets, you usually can select from a broad range of plastic, but the annual fees and interest rates charged on outstanding balances are nothing special.

Despite this load of petty complaints, you still might wonder which financial supermarket does all this best. Of the handful we surveyed, First Union seems to offer the most favorable mix of products, services, and terms—even though it's only the nation's sixth-largest bank and operates in just a dozen states, mostly in the South and East. Its goal is to feature an attractive line of products and services that most any type of customer might demand. That means providing basic banking and insurance and serving do-it-yourself investors, who are

CREDIT, BIT RDS	CASH ACCOUNT			NO-LOAD, NO-FEE FUNDS
	MIN.	ANNUAL FEE	MONEY RATE	
both	\$25,000	\$0	4.95%	344
debit only	10,000	0	4.92%	875
both	100,000	0	Varies	500
both	15,000	80	4.7%	791
both	20,000	100	5.09%	0
both	10,000	85	4.97%	350
debit only	10,000	50	5%	0

\$1 million 15-year term policy for healthy, nonsmoking, 45-year-old woman
5, 1998

Personal Business

Schwab's target market, along with those craving advice—the traditional clientele of Merrill Lynch.

But remember: Like each of the supermarkets, First Union wants to deliver all this stuff at a price. "In the old-time supermarkets, you didn't get a whole lot of things,"

says Donald McMullen, CEO of First Union's Capital Management Group. "But today, you can get the freshest fish, fresh-baked bread, and so on. It's not necessarily cheaper than at the fresh-fish store or the bakery, but it's more convenient." At First Union, he says, customers "won't neces-

sarily save money, but time." Indeed, First Union doesn't offer any no-point mortgages. Each comes with a 1% origination fee.

As these supermarkets strive to take over your financial life, this tradeoff between money and time is the main lever they'll use to pry

you from your old habit just keep asking yourself this one-stop shopping added line of services, new product, this consolidated statement, this source of advice truly me enough time to make for the dollars I'll have to pay for it? *Robert B.*

SMART MONEY

WHY DRUGSTORE CHAINS ARE IN GOOD HEALTH

Toothpaste and prescriptions aren't glamorous, but they've helped top

drugstore-chain stocks outperform the Standard & Poor's 500-stock index by about 100% over the past five years. Mergers generated most of the big gains, but analysts aren't abandoning the sector, even though the pace of consolidation may slow. They note that an aging population is buying more drugs, often paid for in part by managed-care plans. Drugmakers have also been investing in new drugs and boosting advertising. Indeed, 2.6 billion prescriptions were filled in 1997, up 29% from five years ago, reports the National Association of Chain Drug Stores.

Rising sales and profits from expansion have helped push price-earnings ratios of the top drug chains—Walgreen, CVS, and Rite Aid—to about 30 times estimated 1998 earnings (table). That compares with 23 for the S&P. But "I don't see anything keeping them from continuing to outperform," says Jonathan Ziegler, retail analyst at Salomon Smith Barney.

Mergers have hit the industry with sudden force. Just over a year ago, CVS was the

fifth-largest drug chain, by number of stores. It shot to No. 1, with 4,100 outlets nationwide, after buying Revco D.S. for \$2.8 billion in stock and Arbor Drugs for \$1.48 billion in stock in February. No. 2 Rite Aid, many analysts' current favorite, is close behind. After buying Thrifty Payless, it now runs nearly 4,000 stores. Merger mania is also pushing up prices of the remaining midsize chains. Shares of Longs Drug Stores, headquartered in Walnut Creek, Calif., have been edging up amid takeover speculation. And Genovese Drug Stores, based in Melville, N. Y., has jumped 19%, to 22%, since Mar. 20 despite lower-than-expected 1997 fourth-quarter earnings. Analysts say Genovese management isn't interested in selling, and the obvious buyers, CVS or Rite Aid, are still digesting acquisitions.

Rx For Growth?

COMPANY	STOCK PRICE*	52-WEEK HIGH	P/E**
CVS (CVS)	73%	80	30
DUANE READE (DRD)	24%	26%	23
GENOVESE (GDX.A)	22%	25%	36
LONGS DRUG (LDG)	29%	33%	20
RITE AID (RAD)	33%	35%	22
WALGREEN (WAG)	34%	37%	32

* Apr. 20, 1998

**1998 estimated earnings

SOURCE: BLOOMBERG FINANCIAL MARKETS; MIDWEST RESEARCH



THUD: Managed care has cut pharmacy margins by

Genovese is likely to be a victim of the titans, though, since the next drugstore battleground is New York City, where CVS has been aggressively opening stores. Duane Reade, which dominates the market with an 18% share, made an initial public offering in February to pay debts from a failed leveraged buyout. The chain's shares jumped 31%, to 22%, the day of the IPO amid rumors CVS might buy the chain. Both companies denied the tale, and Duane Reade's shares have been flat since then.

The one chain that has eschewed acquisitions, Walgreen, is doing well by sticking to a strategy of growing by building its own stores. It recorded income of \$171 million for the quarter ended Feb. 28, up 16% from a year ago, on revenues of \$4 billion. Whether they do it via mergers or expansion from within,

however, drugstore chains need to grow to survive. Increased size allows the market more efficiently gives them an advantage negotiating with health plans on prescription prices.

One reason many independents and smaller chains have folded is that they have forced down gross pharmacy margins from five years ago to 20%. That decline seems to be bottoming out as the big chains fight back. In Phoenix, and Detroit, for example, big chains now claim 40% to 50% of the market. "That negotiating leverage has helped stem the erosion in margins," says Ramin Arani, who manages the Fidelity Select Retail Portfolio. To be sure, chains would suffer in an economic slowdown, but analysts think they would be better than other retailers. Prescription drugs and toothpaste aren't optional for consumers—or so investors. *Susan Ja*

Informed Solutions for Government and Industry

The McGraw-Hill Companies 3 Symposium on Information Solutions

Join us as we address the issues that are most critical for your success in government and industry.

**May 12, 1998
8:00am - 4:30pm**

Site Address: Harold McGraw III, President and COO,
The McGraw-Hill Companies

Key Topics:

- Information Technology and Workplace Trends
- Doing Business in the Age of Electronic Commerce
- Lifetime Learning in the Information Age
- Trends and Successes in Distance Education
- The Year 2000 and its Approaching Implications
- Network/Computer Security
- Avoiding the Asian Flu
- Where is the Next Currency Crisis Likely to Happen?
- Global Forces Will Shape
U.S. Regional Economic Performance

Symposium Exhibitors: Aerospace Daily • Architectural Record • Aviation Daily • Aviation Week Newsletters • Aviation Week & Space Technology • Business & Commercial Aviation • Business Week • Continuing Education Center • Design-Build • Dushkin/McGraw-Hill • Energy and Business Newsletters • Engineering News-Record • Federal Government Team • F.W. Dodge • Irwin/McGraw-Hill • McGraw-Hill College • McGraw-Hill Health Professions • McGraw-Hill Lifetime Learning • McGraw-Hill Online Learning • McGraw-Hill Professional Book Group • McGraw-Hill School Division • NRI Schools • NSTL • Primis Custom Publishing • Standard & Poor's Compustat • Standard & Poor's DRI • Standard & Poor's Equity Investor Services • Standard & Poor's Ratings Services • Sweet's Group • Tower Group International • U.S. Industry and Trade Outlook • WCB/McGraw-Hill • World Aviation Directory • **Government Partner Exhibitors:** National Information Assurance Partnership (NIAP) • National Technical Information Service (NTIS)

To register for your complimentary admission, or for more information, please call (800) 225-5364 ext. 150, visit us at:

mcgraw-hill.govtservices.com

fax (908) 464-0603

or e-mail tfthom@mh.com

Washington Convention Center • 900 9th Street, NW • Washington, D.C. 20001



The McGraw-Hill Companies

Keeping the world up to speed.

COMMENTARY

By Mike McNamee

DON'T LET FEAR OF TAXES HOLD YOU BACK

It always sets my teeth on edge. Reading about some great investment idea or

strategy, I'll hit the caveat financial writers insert by rote: "This step might

push you into a higher tax bracket, so you'll pay more taxes." Implication: If this idea actually works, you might make money—so maybe you shouldn't do it.

These writers are spreading "bracketphobia"—fear of climbing into a new income bracket and facing a higher marginal tax rate. Their victims are those who, not understanding the income-tax system, take the warnings to heart. Bracketphobia is easily cured with a small dose of knowledge. But its side effects—dumb investments, poor business decisions, and lost income—can be hazardous to your financial health.

VICTIMS. This is one of two periods when bracketphobia is epidemic. Hundreds of thousands of taxpayers had their first experience on Apr. 15, when writing a check to accompany Form 1040. Many tell their accountant: "But I never had to pay taxes before!"—overlooking those regular paycheck exactions. Determined never to "pay taxes" again, they search for ways to reduce the tab, even if it cuts their net worth, too. They might suffer another rash of bracketphobia at yearend when smart investing loses out to the urge to avoid taxes.

Kent Noard, a certified financial planner in San Jose,

Calif., sees victims all the time: the landlady who hasn't raised apartment rents for a decade, the investor who loads up on tax-exempt bonds even though other investments would net much more after taxes, the

couple who forgo a spouse's income.

"Most people don't have any idea how close they are to the next bracket," Noard says. "They just know they don't want to get there."

Why not? Many Americans, it seems, don't

31% on the single dollar that's in the higher bracket—a 3¢ bite in addition to the tax they would have paid if they hadn't crossed the divide. And since there's no 100% tax rate in the code, "it's almost impossible to conjure up a situation where you come out worse by taking an extra \$1 in income," says Thomas Ochsen-schlager of accountants Grant Thornton. No, taxes won't "eat it all up."

There's nothing wrong with managing income to minimize taxes. Offsetting

pay a 20% long-term rate—for investments 18 months—than the 2% medium-term rate. But the stock is peaking, it needs to drop only \$2 to wipe out any tax advantage. "Taxes should never override good investment decisions," says Laurence

Managing taxes is harder because Congress making it tough to even know how high your tax rate is. Since 1983, the has been cluttered with more than 20 tax break-

available only at a certain income level. Virtually every income taxpayer adds a point or more to the statutory tax rate because of the limitation on itemized deductions that kicks in at 1998 adjusted income of \$124,000. Extra income costs you opportunities—such as the ability to fund an individual retirement account. The most punishing of the "phantom" brackets is the phase-out of education tax credits, which add as much as 10 points to a student's tax rate, says University law professor William Poppe.

But the beleaguered scholars should

deterred from earning. Whatever bracketphobia might think, more income front means more money after taxes. Financial calculations designed to deride Sam his extra slice of your success will squander your own wealth, too.

McNamee covers tax from Washington.

TAXES



Symptoms Of Bracketphobia

- Stocking up on tax-exempt bonds when your tax rate is below 31%. Even if your rate is higher, you probably could do better in a taxable investment.
- Hanging on to stocks gone flat to avoid capital-gains taxes. Take advantage of last year's rate cut to clean up your portfolio.
- Passing up extra work because you think taxes will "eat up" all the income. Check again—you're certain to come out ahead.

understand the concept that underlies tax brackets—the notion of marginal tax rates. When a married couple's 1998 taxable income (after deductions and exemptions) rises from \$102,299 to \$102,301, they'll go from the 28% bracket to the 31%. But that doesn't mean that they'll pay 31% of all their income. Instead, they'll pay

capital gains with losses, deferring yearend income if you know you'll face a lower tax rate next year, timing retirement-account withdrawals to coincide with low-tax years—all can be good strategies. But playing tax angles can be risky. Say you have a \$20 gain on a stock you bought just over a year ago. You would rather

"Gangbusters."



*"Sprint Toll-Free" Service
helped triple my sales
in just two weeks."*

—Roger Asmus
One on One Nutrition Fitness
Wheat Ridge, CO

Introducing

SPRINT'S SMALL BUSINESS

PERFORMANCE PLEDGE

*We pledge to work with you to
solve your business challenges
using the right mix of
products and proven tools from
recognized experts to help you
excel in critical areas such as:*

Ensuring Customer Satisfaction
Increasing Your Sales
Improving Employee Effectiveness

Sprint products like *Fridays Free*®, local toll-free and flexible international calling plans, your sales can

With a toll-free number from Sprint, Roger found the key to his success. And by applying other great

take off, too. What's more, we provide valuable business tools and advice to help you with:

- **Implementing a marketing plan**
- **Developing prospect databases**
- **Expanding your business internationally**

...and a whole lot more. Because Sprint not only understands your challenges but can actually tailor a plan to *help grow your business*. So put our Small Business Performance Pledge behind you. Call today.

1-800-477-1406 www.sprintbiz.com



We help your business do more business.®

50 monthly commitment level, minimum of \$50 required on days other than Fridays. Customers who do not meet the minimum requirement will be billed the difference to equal the maximum of \$200 in free local toll and long distance calling on Fridays per month, per customer. For \$200, \$500, \$750 and \$2,000 monthly commitment levels: maximum of \$1,000 free usage. For \$4,000 monthly commitment level: maximum of \$2,000 free usage. Offer good for up to 110 consecutive Fridays total. Excludes SprintFAX® and Sprint Conference Line® services. Certain restrictions apply. Domestic calls and commercial use only. Limited-time offer. Not valid with any other offer. Promotion subject to change.

**Local toll service from Sprint may require dialing an access code in certain areas. ©1998 Sprint Communications Company L.P.



HAS YOUR PORTFOLIO GOTTEN TOP-HEAVY?

With the Dow Jones industrial average shattering the 9000 mark recently, the stock portion of your mutual-fund portfolio has likely grown larger in relation to the other components. That's great news if you're just looking for the highest return. But if your goal is to maintain a certain balance among assets to limit the portfolio's risk, your allocations may need some serious review.

GOAL-TENDING. A good investment plan looks out over a number of years, and it has an objective. This might include your child's education, a down-payment on a house, or money for retirement. In each case, you select an asset allocation and specific funds to meet these goals.

In the best-case scenario, your asset mix stays in about the same proportion for the entire

time the plan is in place. In the real world, though, this seldom occurs because funds grow at different rates. For example, over time, a stock fund's performance will normally be far greater than a money market's. If you have a portfolio that starts with an even split between stock and money funds, the stock funds will dominate. After five years of solid equity-market returns, it's entirely possible you'll wind up with almost 100% in stocks.

Is this really a bad thing?

The answer depends on your objectives. If you started with the goal of maximizing your returns and have a high tolerance for risk, the equity fund's gain is pure gravy. However, if you have a shorter time frame or need to be very conservative, the growth in the equity portion can be a big problem. Says Boston-based certified financial planner Susan Graham: "Once a year, I will sit down with my clients and review their portfolios. If the

allocations have changed and they aren't comfortable with the new mix, we will discuss a shift in assets." She adds that it's important to check allocations within an asset class, such as equities: "If you had planned to have an even mix between domestic large caps and small caps, and now that mix has changed, a rebalancing might be in order."

Let's assume your goal was conservative growth with income, your time horizon was more than 10 years, and you had \$100,000 to invest. To achieve the goal, you set up an allocation in March, 1993, that was 50% stock funds and 50% money funds. Your 50-50 split was designed to be conservative, yet allow some participation in the equity markets. For your stock fund, you picked the popular large-cap Legg

Mason Value Trust-Primary and for the money fund chose the Vanguard Market Prime Portfolio (table).

It's now five years and the equity market has been on a roll. That's caused your Legg stock fund to grow at an annualized pace of about 24.19% and the Vanguard money fund has along slowly, averaging 4.8% with a cumulative return of just 26.64%. You look at your portfolio and that something wonderful and awful has happened: **MORE VOLATILITY.** The thing is your \$100,000 is now \$234,295. The bad news is the stock fund now makes up 73% of the portfolio; the money fund has shrunk to just 27%. Even if you have lots more money, the portfolio may be too aggressive for your taste. In addition, the volatility measured by standard deviation has increased. At the start, the weighted standard deviation was 7.24%; now, it's 10.56%. That means the portfolio will move up and down with much wider swings.

If you do nothing, your portfolio will probably continue to edge closer to 100% stock allocation. That's still a conservative portfolio, and income portfolios don't appear that bad.

Of course, there's always a wrong with a portfolio that's doubling in size over five years. But the risk is that the portfolio's upward character will no longer match the investor's intent. To restore the 50-50 ratio, you would have to transfer \$53,827 from the money fund to the stock fund. Doing so will trigger capital gains taxes. But at the same time, you'll be better about the portfolio mix. *Ch...*

Time To Shift Assets

The following shows how a portfolio set up to have a 50-50 balance between stock and money funds has shifted in the past five years. To restore the original ratio and maintain the goal of conservative growth with income, \$53,827 must be moved into the money fund from the stock fund.

FUND	MAR. 1993		MAR. 1998	
	VALUE	RATIO	VALUE	RATIO
LEGG MASON VALUE TRUST-PRIMARY	\$50,000	50%	\$170,975	73%
VANGUARD MONEY MARKET PRIME	\$50,000	50%	\$63,320	27%

DATA: STANDARD & POOR'S MICROPAL

Norton is a senior editor of S&P's *Wealth* magazine (wealth.com).

Before you dive headfirst into
digital copiers, we'd like to
re-introduce the art of thinking ahead.



When investing in a digital copier/printer, a little forethought can go a long way. Before taking the plunge, consider this: many digital copiers are painfully slow, non-networkable and require an advanced degree to operate.

Now consider the Océ 3165 digital copier/printer. It runs at a remarkably rapid 62 ppm. It can interact with any PC on virtually any network, maximizing your productivity by letting you print, copy, and collate right from your desk. And with Océ Image Logic, high-quality images, graphs and text are achieved without endless adjustments.

Invest in the smarter, faster, more productive Océ 3165. Otherwise, in the future, you may hear yourself sheepishly muttering, "In hindsight we should have gone with Océ."



The Océ 3165 digital copier/printer can be linked to your computer network this very minute or the minute you're ready.

Sharpen your digital acumen with your free Digital Copier Buyer's Guide. Call 1-888-462-3872, ext. 143. For general copier enlightenment, visit www.oceusa.com



B R A I N S B E H I N D B E T T E R D O C U M E N T S

FOR AD RATES AND INFORMATION
PHONE: (312) 464-0500
FAX: (312) 464-0512 OR WRITE:

BusinessWeek

MARKETPLACE

BUSINESS WEEK MARKETPLACE
500 NORTH MICHIGAN AVENUE, SUITE 20
CHICAGO, IL 60611

Residential Roofing

A
LIFETIME
OF
beauty

Country Manor Shake
Aluminum Roofing

Wood Shake Look • Five Natural Colors
Fire Safe • Energy-Efficient • Lifetime Warranty
A Permanent Improvement to Your Home!

For more information, call Perfection

1-888-788-2427

Stress Relief Products

PROTECT YOUR EXECUTIVES
WITH A SHIATSU MASSAGE

*Reg. \$60 Chiropractic
Massage for just
\$1 when you own,
or lease this Chair!



*Get Full Details Today!
Panasonic Massage Chairs Direct
Nationwide **800-353-9917**

Travel

Carlson Wagonlit

Atlantic & Pacific Travel
LOW FARES AND PACKAGES
HAWAII, ASIA & PACIFIC

1-888-537-9966 - Toll Free

(808) 531-4825 - Fax

e-mail: atl@pcwlvh.worldnet.att.net
www.carlsonhawaiiandtravel.com

Corporate Gifts

Logo Tattoos!



1000 Temporary Tattoos with your Logo.
Just \$189.00!!
plus \$10.00 S&H (CA add 7.25% sales tax)
Customized! Full Color! 2" x 2"

Calico

3000 Alamo Drive, Ste 201 • Vacaville, CA 95687
Tel: 707/448-7072 • Fax: 707/446-8273

Home Furnishings

BUY DIRECT!

from North Carolina, furniture
capital of the world. Shop and
save. In home delivery. Over 400
manufacturers to choose from.

HOMELAND FURNITURE COMPANY
P.O. Box 1548, Mt. Airy, NC 27030
(800) 334-9094 (336) 786-6151

Cigars

**CUBAN
CIGARS**

DELIVERY ANYWHERE
Canada 416-966-0040

Computer Equipment

HEWLETT-PACKARD
Buy-Sell-Trade

LaserJet ColorJet Draft Master
DeskJet DraftJet DesignJet
ElectronJet PlotJet PageWideJet

HP 9000 Workstations & Vectras
Demo & Refurbished Equipment
Ted Dasher & Associates

PO Box 131269 Birmingham, AL 35213-6269
Phone 205/263-4747 Fax 205/263-1108
800/638-4833 • E-mail sales@dasher.com

Corporations

We BUY Your PC's

Any Brand, Any Quantity
Will TRADE for New Equipment
1119 28th St. SW • Wyoming, MI 49519
616-249-3512 / EMAIL: jlbryant@quind.com

Corporate Promotions

Inexpensive Corporate Giveaways
that REALLY work - don't get
thrown away!

Custom Designed Leather Bookmarks

Clients love them and are constantly
reminded of YOU. Visit our Web Site
www.leatherbookmarks.com

OR

Send us your logo. We will suggest a layout
and send you a typical sample free of charge

AMERICAN CORPORATION

7 Corporate Dr., 109C North Haven, CT 06473
Tel. 203 239-0448 Fax 203 234-8820

Franchising

**Franchise
your business!**

Call for information on franchising and
"Franchise Your Business!" seminars
scheduled throughout the country.

FRANCORP

Specialists in Franchise Development BW

1-800-FRANCHISE (1-800-372-6244)

Education/Instruction

**AWARD WINNING
DISTANCE
EDUCATION**

MBA & MS Degrees

Executive Education



800.441.4746

www.isimu.edu

Accredited by the
Distance Education Training Council

Business Services

**OFFSHORE
CORPORATIONS**

- ◆ Protection, Privacy, Tax-Free
- ◆ Nominees, Bank Accts. Credit Cards
- ◆ Lic. Offices: Las Vegas - Nassau
- ◆ Flat Rate Fees, Nevada Corps. \$95

ORDER BY PHONE FREE INFO
1-800-997-2550

SAVE 30% to 50%

**3-TO-A-PAGE
BUSINESS CHECKS
&
LASER/INKJET
COMPUTER CHECKS**

Call for a FREE brochure

1-800-239-4087

DESIGNER CHECKS
www.designerchecks.com

100% SATISFACTION GUARANTEED

INCORPORATE

- FREE Information
- All U.S. States and Offshore
- Attorney owned and operated

1-800-672-9110

www.corpreations.com

TRADEMARK

RESEARCH REPORTS

20,000 ACADEMIC TOPICS AVAILABLE!
Send \$2 for the 290 page catalog

RESEARCH ASSISTANCE

TOLL FREE HOTLINE: 800-351-0222

<http://www.research-assistance.com>

MBA BY DISTANCE LE

Major British university offers accredited
Intelligence Unit as one of the world's best MB

HERIOT-WATT UNIVERSITY (800) M
North American Distributor Ask
6921 Stockton St, Suite 2, El Cerrito, CA

For immediate FaxBack literature:
fax machine's phone, call (510) 48

EARN YOUR COLLEGE DEGREE

Psychology Paralegal Studies & Criminal Ju

FREE CATALOG
1-800-767-CHAD
www.chadwick.edu

University Deg

Approved Self Paced Hon
Associate Bachelors Master
Emphasis in: Business Admin. Pub
Health Care Admin. Human Fa
Finance, Int'l Business, Tech M
Paralegal, Psychology, Comput

<http://www.scups.edu>

Email: enroll@scups.edu

1-800/477-2254 (24 hr)

Southern California Uni
for Professional Stud
1840 E. 17 St-BW, Santa Ana

Business Service

**INCORPORATE
BY PHONE**

For as little as \$39 plus
we will form your Corpora
in *any state*. Last year o
nies incorporated over
businesses. We spe
assisting first-time incor

In as little as 5 min
the phone we'll take your
in most states you will be
rated in just 24-48 hours
to fill out, we do all the

Call now to set up you
or get our *free* guide to
rating today!

800-877-4

302-998-0598 • FAX 302-998-0598

www.corporate.com • Comput

Email: info@corporate.com

C CORPORATE AG

Since 19

We incorporate ev

AD RATES AND INFORMATION
PHONE: (312) 464-0500
FAX: (312) 464-0512 OR WRITE:

BusinessWeek

MARKETPLACE

BUSINESS WEEK MARKETPLACE
500 NORTH MICHIGAN AVENUE, SUITE 2010
CHICAGO, IL 60611

Business Opportunities

MONEY AS A BUSINESS FINANCE CONSULTANT

Business Loans and
Leases from \$1,000 to
\$100,000. No co-brokering. Work
for National Lenders.
High earnings potential and
flexibility. No experience
needed. **FREE** information
on disk. **800-336-3933**
Powergy Consultants, Inc.

Potential Annually
USED BUSINESS
Qualified Leads Per Day
\$100K up less than \$10K
\$75K possible first few
weeks through product
demo phone, fax.
No training. Not MLM.
A ASSOCIATES
2-0018 X5257

Legal Services

Your Legal Fortress
Alternative Estate Planning
Uniquely Cost Effective
Tax Income Optimization
Legal/Financial Techniques
for anyone's Income, Assets,
Estate or Private Challenge
71 x3863 (xFUND)

RIDE THE DEREGULATION WAVE!

Need sales agents to cash in on
electrical deregulation. Sell our equipment
to mid-sized customers. Sales kit \$75,
money back guarantee. More details:
www.powergy.com
Powergy, 111 Chestnut Street
Providence, RI 02903-4151

I MADE OVER \$1,000,000 LAST YEAR...

...in a zero stress, relaxed, ideal
lifestyle, simple, home-based business!
Now I want to teach 2 highly
motivated persons in your area my
turn-key system. Call my
24 Hr. Hotline 800-331-0312

Business Financing

GET CASH FOR INVOICES Finance Your Accounts Receivable

Low Rates • No Hassles • No Financials
We can customize financing
to suit your company
AeroFund Financial, Inc.
(800) 747-4234

DON'T MISS THE OPPORTUNITY
TO ADVERTISE IN THE
BUSINESS WEEK MARKETPLACE AND
REACH OVER 6 MILLION RESPONSIVE
READERS WITH THE EDUCATION,
FINANCIAL ABILITY AND INTEREST
TO RESPOND TO YOUR OFFER.

The next MarketPlace section
closes on April 27th or
the June 8th issue.
For rates and information contact:

Business Week MarketPlace
500 North Michigan Avenue
Suite 2010
Chicago, IL 60611
Phone 312-464-0500
Fax 312-464-0512

Business Opportunities

CONSULTANTS

International firm expanding in
US needs independent consultants
to represent our company. We
offer some of the finest Training
and Development processes
available today. Very high income
potential. Extensive training and
support. Management, marketing,
or consulting experience helpful.
Send resume or brief personal
history to:

RESOURCE ASSOCIATES CORPORATION

D.L. Engle, VP Development
Department WB805
31 Hickory Road
Mohnton, PA 19540
(800) 799-6227, Ext. 12
FAX: (610) 775-9686

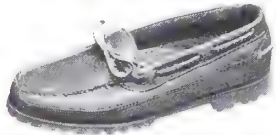
Sports Equipment



Tennis Tutor
Portable Ball Machine
#1 Worldwide from \$699
800-448-8867
www.sportstutor.com

Menswear/Fashion

MEN'S WIDE SHOES
EEE-EEEEEE, SIZES 5-13
FREE catalog • High quality • 160 styles



HITCHCOCK SHOES, INC.
Dept. 55E Hingham, MA 02043
1-800-952-WIDE www.wideshoes.com

Boarding/Prep Schools

RIVERSIDE MILITARY ACADEMY EXCELLENCE IN COLLEGE PREP SINCE 1907

- Honor JROTC school with distinction
- Safe, structured, all boys boarding environment
- Grades 7/12, full accredited, small classes, weekly report cards
- Promotes leadership, self-confidence, and Manners



- Computer in every dorm room
- Full athletic program
- Band, Fine Arts, and Aviation
- Affordable Tuition
- Located on Lake Lanier in North GA
- www.cadet.com

FOR MORE INFORMATION CALL 1-800-GO-CADET

Books / Videos

WHAT'S THE SMARTEST \$19.95 INVESTMENT YOU'LL EVER MAKE?



It just may
be this
fascinating
book,
written
by one of

the country's top money
managers. You'll find useful
information on inflation,
insurance, budgeting, invest-
ing and debt reduction —
and the steps you can take to
reach your financial dreams.
Just \$19.95, including ship-
ping and handling.

To place your order, or
for a free brochure, call:
1-800-234-3445, ext. 154
DEER PUBLISHING, INC.

"Superb advice from the ultimate pro
Malcolm S. Forbes, Jr.

Publishing

Have you written a BOOK?

Ben Z. London is a professional writer and
editor for your career. We are the most
popular writer with a large database.
Call for our brochure, 800-645-5646
or check our website <http://www.LondonBooks.com>

www.LondonBooks.com



BizLink

Unless, of course, you actually enjoy filling out forms.

Want advertiser information now, without having to fill out one of those pesky reader service cards? Connect BizLink, Business Week's new electronic reader service fulfillment system. You'll get the information you need the way you want it—by fax, phone, mail, or e-mail. It's fast and nothing could be simpler. **Why wait?**

Access BizLink now:

www.businessweek.com/BizLink/

BusinessWeek

MUST READ. BEST READ. WORLDWIDE.

And if you don't have an Internet connection, just call 1-800-848-6708.

May 4, 1998

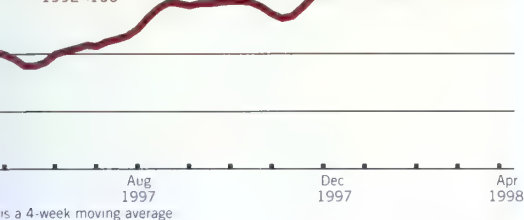
1 3Com	8 Digital	15 Partner fuer Berlin	22 SDRC
2 Adobe Systems, Inc.	9 E*TRADE Securities	16 Prudential Investments	23 Siemens Telecom Networks
3 Cabletron Systems, Inc.	10 Imation	17 QAD Inc.	24 USWEB
4 Charles Schwab	11 Iomega Corporation	18 Qualcomm	25 UUNET Technologies Inc.
5 Clarify Inc.	12 Management Recruiters International	19 Quantum	26 Walker Interactive Systems
6 DataWorks	13 MCI Data	20 SAPIENS TECHNOLOGIES	INTERNET ONLY
7 Datek Online	14 Mita Copystar America	21 SAS Institute, Inc.	27 Amoco Chemicals

Business Week Index

PRODUCTION INDEX

from last week: 0.5%
from last year: 5.5%

PRODUCTION INDEX
Apr. 11=132.1
1992=100



The production index was up in the week ended Apr. 11. The unaveraged index rose 0.2%, to 132.8, from 133 in the previous week. After adjustment, output of electric power was down 1.1%, with large increases in available energy in the Pacific Northwest and New England. Freight traffic also declined by 0.7%. Coal production was up. Lumber production declined 1.1%. All other components were up.

Index copyright 1998 by The McGraw-Hill Companies

PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
INDUSTRIAL PRODUCTION (4/17) S&P 500	1122.72	1109.69	46.5
BOND YIELD, Aaa (4/17)	6.67%	6.64%	-13.7
INDUSTRIAL PRODUCTION, M2 (4/6) billions	\$4,146.3	\$4,123.9r	6.8
INDUSTRIAL PRODUCTION, UNEMPLOYMENT (4/11) thous.	289	311r	-13.0
INDUSTRIAL PRODUCTION, APPLICATIONS, PURCHASE (4/17)	227.3	287.3	25.4
INDUSTRIAL PRODUCTION, APPLICATIONS, REFINANCE (4/17)	1,087.0	1,684.2	285.1

Standard & Poor's, Moody's, Federal Reserve, Labor Dept., Mortgage Bankers Association (Index: March 16, 1990=100)

INTEREST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
10-YEAR TREASURY BOND (4/21)	5.37%	5.47%	5.50%
3-MONTH T-BILL (4/21) 3-month	5.47	5.47	5.70
1-YEAR T-BILL (4/22) 3-month	5.58	5.58	5.71
30-YEAR T-BOND (4/17) 30-year	7.06	7.12	8.29
1-YEAR MORTGAGE (4/17) one-year	5.84	5.76	6.16
5-YEAR MORTGAGE (4/17)	8.50	8.50	8.50

Federal Reserve, HSH Associates, Bloomberg Financial Markets

The production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

THE WEEK AHEAD

GOODS ORDERS

Friday, Apr. 28, 8:30 a.m. EDT ▶ New goods orders likely rose 0.7% in March, after falling 1.7% in February. The median forecast of economists from Standard & Poor's MMS, one of the McGraw-Hill Companies.

CONSUMER CONFIDENCE

Friday, Apr. 28, 10 a.m. EDT ▶ The Consumer Confidence Index likely rose in April, from March's 134.3.

HOME SALES

Friday, Apr. 29, 10 a.m. EDT ▶ New home sales probably sold at an annual rate of 870,000 in March. In February, sales were 850,000.

ary, home sales jumped unexpectedly, to a record high of 893,000.

REAL GROSS DOMESTIC PRODUCT

Thursday, Apr. 30, 8:30 a.m. EDT ▶ The S&P MMS survey expects that real GDP grew at an annual rate of 3.5% in the first quarter, after a 3.7% surge in the fourth quarter. Red-hot consumer spending led the gain.

EMPLOYMENT COSTS

Thursday, Apr. 30, 8:30 a.m. EDT ▶ Employment costs for civilian workers probably increased 0.9% in the first quarter, after rising 1% in the fourth quarter. Higher wages are pushing up the growth of overall compensation costs.

PERSONAL INCOME

Friday, May 1, 8:30 a.m. EDT ▶ Personal income likely edged up 0.2% in March, while consumer spending rose 0.3%, says the S&P MMS survey. In February, incomes jumped 0.6%, while spending advanced 0.4%.

NAPM SURVEY

Friday, May 1, 10 a.m. EDT ▶ The National Association of Purchasing Management's business index likely fell to 53.5% in April, from 54.8% in March.

CONSTRUCTION SPENDING

Friday, May 1, 10 a.m. EDT ▶ Construction outlays probably rose 0.1% in March, after a 0.3% increase in February.

PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (4/18) thous. of net tons	2,148	2,174#	3.8
AUTOS (4/18) units	106,241	93,853r#	-19.8
TRUCKS (4/18) units	125,187	114,222r#	3.6
ELECTRIC POWER (4/18) millions of kilowatt-hrs.	56,175	56,251#	-1.4
CRUDE-OIL REFINING (4/18) thous. of bbl./day	15,157	14,945#	6.2
COAL (4/11) thous. of net tons	20,623#	21,297	7.6
LUMBER (4/11) millions of ft.	482.1#	481.4	-0.7
RAIL FREIGHT (4/11) billions of ton-miles	26.1#	27.1	3.2

Sources: American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, American Petroleum Institute, Energy Dept., WWPAl, SFPAl, Association of American Railroads

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (4/22) \$/troy oz.	312.800	307.200	-8.3
STEEL SCRAP (4/21) #1 heavy, \$/ton	133.50	133.50	-2.6
COPPER (4/17) ¢/lb.	86.8	81.7	-21.2
ALUMINUM (4/17) ¢/lb.	69.8	68.0	-6.3
COTTON (4/18) strict low middling 1-1/16 in., ¢/lb.	61.05	60.00	-11.1
OIL (4/21) \$/bbl.	15.13	14.82	-21.3
CRB FOODSTUFFS (4/21) 1967=100	231.85	228.43	-3.3
CRB RAW INDUSTRIALS (4/21) 1967=100	300.33	298.52	-9.8

Sources: London Wednesday final setting, Chicago market, Metals Week, Memphis market, NYMEX, Commodity Research Bureau

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (4/22)	130.76	129.30	126.19
GERMAN MARK (4/22)	1.79	1.80	1.71
BRITISH POUND (4/22)	1.67	1.69	1.62
FRENCH FRANC (4/22)	6.01	6.03	5.78
ITALIAN LIRA (4/22)	1771.9	1776.0	1702.5
CANADIAN DOLLAR (4/22)	1.43	1.44	1.39
MEXICAN PESO (4/22)*	8.459	8.467	7.873
TRADE-WEIGHTED DOLLAR INDEX (4/22)	109.9	109.9	106.4

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars. Trade-weighted dollar via J.P. Morgan

This Week, Online

Business Week presents frequent live conferences and chats on America Online—your opportunity to ask questions about timely topics.

ONLINE
BusinessWeek

Sunday

Stand-up comic Aye Jaye, author of *The Golden Rules of Schmoozing*, has advice on how to talk your way out of almost anything. The program comes to you from BW Enterprise as part of AOL's WorkPlace Weekend series. **Apr. 26**
9 p.m. EDT in BW Online's Conference Room

Thursday

Can the stock market keep it up? Bring this—and any other investing questions—to Gail M. Dudack, chief investment strategist of UBS Securities. You've probably seen her on *Wall Street Week*. **Apr. 30**
9 p.m. EDT in BW Online's Conference Room

AOL keyword: BW Talk

Transcripts of all conferences are available for downloading from the BW Online area on AOL soon after each event.

Index to Companies

This index gives the starting page for a story or feature with a significant reference to a company. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

A

Abbott Laboratories (ABT) 52
AgentSoft 84
AirCell 8
AirTouch 140
Alcatel Alsthom (ALA) 140
Amazon.com (AMZN) 122
American Airlines (AMR) 50, 70
American Express (AXP) 38, 124
American International Group (AIG) 119
American Standard (ASD) 98
America Online (AOL) 38
Ameritech (AIT) 140
Amway (AAP) 54
Apple Computer (AAPL) 22
ArbNet 70
Arbor Drugs (ARBR) 170
Ascend Communications (ASND) 124
Ashton Technology Group (ASTN) 120
AT&T (T) 70, 140
AucNet 70
Avon Products (AVP) 54

B

Banco Itau 60
Banc One (ONE) 41
B&B Consulting Services 124
BankAmerica (BAC) 44, 168
Bank of New York (BK) 54
Bell Atlantic (BEL) 88, 111, 140
Bell Canada (T) 60
BellSouth (BLS) 46, 140
Berkshire Hathaway (BRK) 119, 124
Bloomberg 120
Bristol-Myers Squibb (BMY) 122
British Biotech 66
Busch Entertainment (BUD) 38

C

Casio 8
CCA Prison Realty Trust 54
Cendant (CD) 84, 119
Chase Securities (CMB) 140
Cisco Systems (CSCO) 119, 124
Citicorp 168
Clipper Fund 119
CNBC (GE) 124
CNN (TWX) 124
Coca-Cola (KO) 70
Colgate-Palmolive (CL) 122
Comerica (CMA) 44
Compaq Computer (CPQ) 38, 119
Compare Net 84
Compensation Resource Group 111
CompUSA (CPU) 106
Computer Learning Centers 106
CompuWare 38
Contour Design 124
Cook (Frederic W.) 111
Corrections Corp. of America (CCA) 54
Creative Networks 12
Crowley's Yacht Yard 70
Crystal Systems Solutions (CRYSF) 122
CVS (CVS) 170

D

Datex Online 124
Dell Computer (DELL) 27
Desdner 6
Digital Equipment (DEC) 122
Discovery Fund 88

E

Eastman Consulting 70
Eastman Kodak (EK) 140
Educational Consulting Services 106
EMI 54
Enron (ENE) 54, 70
Entrust Capital 122
Equitable 168
Encsson (LMJ) (ERICV) 140
Ernst & Young 84
E*Trade Securities 124
Excite (XCIT) 84, 122

F

FastParts 70
FDX (FDX) 119
Fidelity Bank 44
Fidelity Investments 106, 124, 170
First Chicago NBD (FCN) 41
First Union (FTU) 168
Florida Power & Light (FPL) 48
Ford (F) 60, 159
Forrester Research (FORR) 124
Fort Howard Paper 102
Fujitsu 122

G

Gartner Group (GART) 64
Gazprom 66
General Electric (GE) 18
General Motors (GM) 38, 159
Genovese Drug Stores (GDXA) 170
Gomez Advisors 124, 138
Grant Thornton 172
Gruntal 122
GTE (GTE) 140

H

H&R Block (HRB) 38
Harris (Louis) 42
Henry Heit 6
Hewlett-Packard (HWP) 38
Hillench & Bradsky 88
Hirschfeld Stern Moyer & Ross 111
Home Depot (HD) 124

I

IBM (IBM) 27, 38, 70, 84, 122
Industrias Romi 60
Infoseek (SEEK) 122
InfoSpace 84
Intel (INTC) 27, 52, 70, 122
Intermarket Trading 70
Iomega (IOM) 124
Israel Electric 66

J

Johnson Associates 111
Junglee 84
Jupiter Communications 84
Justsystem 64

K

Kaufman Fund 119
KES Irrigation Systems 158
Knight-Ridder (KRI) 119
Kohler 98, 102

KPMG Peat Marwick 60, 172
Krasnoyarsk Aluminum 66

L

Lipper Analytical Services 38, 119
Lockheed Martin (LMT) 124
Longleaf Partners 119
Longs Drug 170
Lucent Technologies (LU) 140, 158
Lycos (LCOS) 84, 122

M

Mapics (MAPX) 122
Market Guide (MARG) 138
Marsico Focus Fund 119
Mary Kay Cosmetics 54
Masco (MAS) 98
Mason Value Trust-Primary Fund 174
MasterCard 70
Mazda 159
McDonald's (MCD) 6
McGraw-Hill (MHP) 34, 111, 138, 179
MCI Communications (MCIC) 46, 70
Media One 88
Mellon Bank (MEL) 54
Merrill Lynch (MER) 64, 88, 124, 168
Metro One Communications (MTON) 140
Micon 27
Microsoft (MSFT) 6, 22, 27, 38, 42, 54, 64, 84, 120, 124
M.I.S. Consultants 48
Moai Technologies 70
Morgan Stanley Institutional Fund 119
Morningstar (MSTR) 119, 124
Mottley Fool 124, 138
Motorola (MOT) 60, 140
MRV Communications (MRV) 122

N

National Semiconductor 54
NationsBank (NB) 44, 168
Netbot 84
Netscape Communications (NSCP) 12
New England Growth Fund 119
Nieto Computer Services 38
Nike (NKE) 260
Nikko Securities 40
Nokia 140
Norfolk Nickel 66
Northern Telecom (NT) 140
Northwest (NWA) 50
Norwest (NOB) 44, 111
Novolipetsk Metallurgy Plant 66
NYMOX Pharmaceutical 12

O

Office Depot (ODP) 166
OfficeMax (OMX) 166
Oneximbank 66
Onsale 70
Oracle (ORCL) 124

P

Papa John's International 6
PC Data 38
PC Quote 124
Peapack Bank 44
PepsiCo (PEP) 6
Perpetual 66
Pfizer (PFE) 12, 52
Philips Electronics (PHG) 122
Piper Jaffray 124
Pizza Hut 6
Portland General Electric (PGN) 54
Priceline 70
PrimeCo Personal Communications 140
ProFunds 124
Publicis Technology 88

Q

Qualcomm (QCOM) 14

R

Regional Financial Assets 88
Resource Bank 44
Reuters Holdings 120
Revco D.S. (RXR) 170
Rite-Aid (RAD) 170
Rossrisky Kredit 66

S

Salomon Smith Barney 34, 166, 168, 170
Sara Lee (SLE) 12, 111
Schering-Plough (SCP) 170
Schwab (Charles) (SCH) 170
Scudder Stevens & Clark 170
Sea World of Florida (B) 54
Seagram (VO) 54
Sentient Systems Technology 119
Sequoia Fund 119
Siebel Systems 124
Siemens 140, 158
SoGen International Fund 119
Sony (SNE) 140, 158
Southern (SO) 66
Southern California Gas 170
Southwestern Bell (SB) 170
Spnnt (FON) 46, 70
Standard & Poor's DR 170
Standard & Poor's MM 170
Staples (SPLS) 166
Sumiden Wire Products 170
Sun Microsystems (SUN) 170
Sunrise Medical (SMC) 170

T

Takeda Chemical Industries 170
Tandem Computer 70
TAP Pharmaceuticals 170
TDK 158
Telebras 60
TeleScan (TSCN) 124
Thrifty Payless (TPD) 170
Toshiba 27
Toumeau 8
Toyota (TOYOT) 159
Toys 'R' Us (TOY) 11
Tracor (TTRR) 54
Travelers Group 111
Tricon 6
Trilogy Systems 70
Triton Industries 88

U

United Airlines (UA) 170
Universal Studios 38
USA Group 88
U.S. Bancorp (USB) 170
Usuminas 60

V

Vanguard Money Manager 170
Portfolio Fund 170
Visa 70
Votorantim Group 170

W

Waggoner Edstrom 170
Walgreen (WAG) 170
Walt Disney (DIS) 170
Waterhouse Securities 170
Wyse Advertising 170

Y

Yahoo! (YHOO) 84
Yankee Group 140
Yukis 66

Z

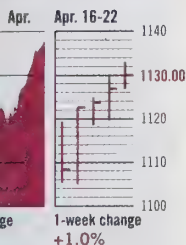
Zonagen 52
Zona Research 70

For a free trial diskette including 50 free hours on AOL, call 1-800-641-4848 and mention BusinessWeek.



two. Editor's, Circulation, and Advertising Offices: 1221 Avenue of the Americas, New York, N.Y. 10020. U.S. subscriber rate \$54.95/yr. \$69/year. Periodicals postage paid at New York, N.Y., and at additional mailing offices. Postage paid at Montreal, P.Q. Canada Post Publications Mail Product Sales Agreement No. 246484. Postmaster: Send address changes to BUSINESS WEEK, P.O. Box 430, Hightst-

Investment Figures of the Week



... week for stocks, action was in the NASDAQ composite which jumped 2.9% for a 0.2% gain for industrials. The big NASDAQ block, Mid Intel, were both Microsoft rose more to 98%, while more than 9 84%. The reason: outlook for both is robust. The NASDAQ 22% since the be- the year, 6 percent- above the gain in the S&P 500.

U.S. MARKETS	Latest	% change Week	% change Year
Dow Jones Industrials	9176.7	0.2	34.7
NASDAQ Combined Composite	1917.6	2.9	56.3
S&P MidCap 400	380.7	0.9	51.5
S&P SmallCap 600	205.8	0.9	50.7
S&P SuperComposite 1500	242.5	1.0	46.8

SECTORS	Latest	% change Week	% change Year
Bloomberg Information Age	354.8	4.5	52.4
S&P Financials	139.7	-0.4	63.7
S&P Utilities	241.7	-1.6	32.1
PSE Technology	360.7	2.6	49.3

FOREIGN MARKETS	Latest	% change Week	% change Year
London (FT-SE 100)	5931.1	-2.4	35.2
Frankfurt (DAX)	5360.7	-0.5	57.9
Tokyo (NIKKEI 225)	15,761.5	-3.3	-15.9
Hong Kong (Hang Seng)	10,977.5	-3.5	-13.6
Toronto (TSE 300)	7822.3	0.1	33.2
Mexico City (IPC)	5164.7	3.5	35.0

FUNDAMENTALS	Latest	Week ago	Year ago
S&P 500 Dividend Yield	1.38%	1.45%	1.90%
S&P 500 P/E Ratio (Last 12 mos.)	26.9	27.7	19.9
S&P 500 P/E Ratio (Next 12 mos.)*	22.2	21.9	16.2
First Call Earnings Surprise*	2.88%	2.88%	3.64%

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 200-day average	978.6	973.0	Positive
Stocks above 200-day average	65.0%	65.0%	Neutral
Options: Put/call ratio	0.47	0.64	Negative
Insiders: Vickers Sell/buy ratio	3.09	2.79	Negative

Data: Bloomberg Financial Markets; *First Call Corp.

BEST-PERFORMING GROUPS	Last month %	Last 12 months %
Gold Mining	28.9	Broadcasting 125.7
Restaurants	16.4	Homebuilding 121.5
Communications Equip.	15.6	Communications Equip. 105.0
Computer Systems	13.3	Specialty Appr. Retailers 98.1
Computer Software	13.1	Personal Loans 94.8

WORST-PERFORMING GROUPS	Last month %	Last 12 months %
Commercial Systems	-16.0	Metals -25.7
Food Chains	-10.2	Engineering & Constr. -15.0
Tobacco	-10.1	Shoes -11.2
Engineering & Constr.	-8.4	Tobacco -7.4
Hotels & Motels	-6.8	Photography/Imaging -4.6

BLOOMBERG MONEY FLOW ANALYSIS

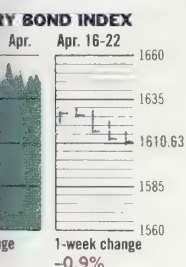
Rebound ahead? Stocks with most significant buying on price weakness

	Price	1-month change
Oracle	27 3/16	-2 1/2
AT&T	63 3/8	-2 9/16
Telebras-ADR	125 3/4	-8 1/8
Lockheed Martin	113 1/2	-3 1/8
Household International	131 7/8	-8 3/8
Teleport Communications Group	57 3/8	-7/8

Decline ahead? Stocks with most significant selling on price strength

	Price	1-month change
Microsoft	94 7/8	11
Pfizer	116 3/16	19 15/16
WorldCom	43 3/8	1/16
Intel	78 15/16	3 27/32
Dell Computer	74 3/8	12 1/8
Cisco Systems	73 7/8	9 1/8

RATES



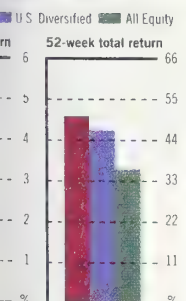
KEY RATES	Latest	Week ago	Year ago
MONEY MARKET FUNDS	5.10	5.10	5.06
90-DAY TREASURY BILLS	5.07	5.08	5.37
6-MONTH BANK CDS	5.08	5.08	5.22
1-YEAR TREASURY BILLS	5.39	5.38	6.00
10-YEAR TREASURY NOTES	5.67	5.60	6.89
30-YEAR TREASURY BONDS	5.96	5.89	7.09
LONG-TERM AA INDUSTRIALS	6.55	6.47	7.61
LONG-TERM BBB INDUSTRIALS	7.01	6.92	7.94
LONG-TERM AA TELEPHONES	6.80	6.73	7.84

BLOOMBERG MUNI YIELD EQUIVALENTS

Taxable equivalent yields on AAA-rated, tax-exempt municipal bonds, assuming a 31% federal tax rate.

	10-yr. bond Latest week	10-yr. bond Last week	30-yr. bond Latest week	30-yr. bond Last week
GENERAL OBLIGATIONS	4.48%	4.45%	5.08%	5.05%
PERCENT OF TREASURIES	78.88	79.60	85.18	85.90
TAXABLE EQUIVALENT	6.49	6.45	7.36	7.32
INSURED REVENUE BONDS	4.64	4.61	5.29	5.25
PERCENT OF TREASURIES	81.70	82.46	88.70	89.30
TAXABLE EQUIVALENT	6.72	6.68	7.67	7.61

FUNDS



EQUITY FUNDS

Leaders	Four-week total return %	Laggards	Four-week total return %
Lexington Strat. Invmtts.	20.9	Matthews Korea I	-12.9
Rydex Precious Metals	17.6	Lex. Troika Dialog Russia	-8.6
Pioneer Gold A	16.4	Pilgrim Amer. Asia-Pac. B	-8.3
Am.Cent. Global Gold	16.3	Montgomery Emerg. Asia R	-7.7
PIMCo Precious Metals C	16.1	Fidelity Southeast Asia	-7.6
Leaders	52-week total return %	Laggards	52-week total return %
Delaware Aggressive Gr. A	115.2	Matthews Korea I	-50.4
Munder Micro-Cap Equity Y	96.5	U.S. Global Investors Gold	-49.4
Weitz Hickory	96.2	Merrill Emerging Tigers C	-47.9
FMI Focus	93.0	Morgan Stan. Asian Grth C	-47.9
Texas Capital Val. & Grth.	90.6	Morg. Stan. Inst. Asia Eq. A	-47.6

EQUITY FUND CATEGORIES

Leaders	Four-week total return %	Laggards	Four-week total return %
Precious Metals	12.9	Pacific/Asia ex-Japan	-4.6
Technology	6.9	Diversified Pacific/Asia	-2.3
Europe	4.4	Utilities	-0.9
Small-cap Growth	4.1	Real Estate	0.2
Foreign	3.8	Health	1.0
Leaders	52-week total return %	Laggards	52-week total return %
Communications	65.5	Pacific/Asia ex-Japan	-32.1
Financial	61.7	Diversified Pacific/Asia	-23.8
Small-cap Growth	51.3	Precious Metals	-23.0
Small-cap Blend	51.1	Japan	-10.2
Large-cap Growth	51.1	Diversified Emerging Mkts.	-5.0

... of market close Wednesday, Apr. 22, 1998, unless otherwise indicated. Industry S&P 500 companies only. Fundamentals, technical indicators, Bloomberg mon-

... ey flow analysis, and mutual fund returns are as of Apr. 21. For a more detailed explanation, write to us or E-mail figures@businessweek.com. NA=Not available **Vanguard Index 500 Fund

DOES AMERICA HAVE A BUBBLE ECONOMY?

Does the U.S. have a Japanese-style bubble economy? And should the Federal Reserve burst it with higher interest rates, even at the risk of recession? A growing chorus says yes. Asset inflation, they argue, requires an immediate tightening of monetary policy and a throttling-back of the economy. Just look at the soaring stock market or surging house prices. Even movie tickets and admission prices at Disneyland are going up. Unless the Fed acts, they say, the U.S. economy will overheat and crash, just like Japan's.

Certainly, the bubbles are troublesome. It is true that high-priced stock is being used as cheap currency to pay for gigantic mergers that may not make sense. Telecom companies are bootstrapping themselves up with high-multiple equity. Prices are going up for hotel rooms, airline tickets, New York condos, and Silicon Valley houses. We would all be more comfortable if these things weren't happening. But they do not mean that it's Japan redux.

Look at the fundamentals. Japan's bubble was built on leverage. Individuals and corporations borrowed enormous sums against their stock market gains to invest in everything—Tokyo real estate, overseas factory capacity, American golf courses, gold, and Picassos. When the Nikkei cracked, the leverage reversed, crushing Japan's economy. That's not happening—yet—in the U.S. There are a lot of stock deals. But total national borrowing is only 8.8% of nominal gross domestic product—low compared with previous decades. New federal borrowing as a percentage of GDP is practically zero, offsetting moderately rising private debt. Consumer borrowing, while high, has slowed sharply since mid-1996. Producer prices are falling, and the consumer price index is up a mere 1.4% from a year ago. There are, as yet, no major imbalances.

Japan's bubble was built on the quicksand of ever-expanding manufacturing capacity financed by virtually free capital. Corporate profits were made in stock market speculation, not just in selling products. This is not the case in the U.S.

The shift to an information economy is generating a stream of enterprise. Innovation is throwing up new and new products faster than you can say "electromercede." Restructuring and downsizing are an obsessive. Productivity is paying for much of the recent real gain in Growth in corporate profits, although under some pressure, has been great for three years. Most CEOs now focus on top-line revenue growth, profits, cutting cost shareholder value.

But what about rising prices? A good many remarkable growth of wealth at the top. The jump in real prices is sharply skewed to very expensive houses. Prices are up for first class and business, not steerage. Prices in golf clubs are up, but prices for local gyms. Price tags for new and used cars, clothing, and beer have fallen. Personal-computer prices are way down, as are trading commissions and mortgages. The rise in prices of luxury goods is worrisome, but prices for most things that Americans consume are not rising nearly as much, if at all.

Strong economic growth has done wonders for America. It has made many more people rich, and they have advanced the federal budget through their capital gains taxes. It has raised real wages and tightened labor markets, providing jobs for college grads as well as school dropouts. It has even revived the cities—new centers for information technology and innovation. It is not the time for a rate hike that threatens this progress.

The fundamentals are sound—and are what the Fed should focus on. First quarter growth was strong but due in part to unusually warm weather. If the economy slows in the second half and if profit growth gets the market will correct itself with no help. The one threat could threaten the economy is a debt explosion—the Fed is already exhorting banks to be cautious. That's not Japan. The U.S. is not Japan.

THERE'S MORE THAN ONE PARTY OF BUSINESS

Take your pick of economic-policy issues: free trade, immigration, the International Monetary Fund, national educational standards, or taxes. It used to be that congressional Republicans were for Big Business and Democrats against. Not anymore. Today, both parties are split, with the conservative wing of the GOP aligning with liberal Democrats—against multinational companies. Meanwhile, moderate Republicans and centrist New Democrats share a more expansive economic view of the world. But these moderates have little power, and it grows smaller every day.

Corporations have themselves partly to blame. In recent years, companies and executives have given the bulk of their contributions to the GOP. But social conservatives and small-

business champions have dominated economic-policy issues and they often share a more parochial, protectionist view.

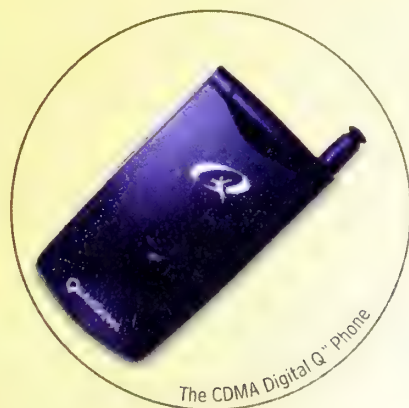
When Democrats ruled Congress, corporations were more than willing to funnel campaign contributions more than with a substantial amount going into the Democratic Party. That bolstered the New Democratic center. Once they cut their campaign funding, union money came to dominate Democratic politics, positioning the party as anti-trade.

It's time for rebalance. Big shifts on economic issues to Corporate America are occurring within both parties. Candidates whose policies promote innovation, global trade, and efficient government should be supported regardless of party affiliation. It's time for a return to pragmatism.

E'VE HOUSEBROKEN TECHNOLOGY FOR YOU.



QUALCOMM has tamed unruly technology and, at the same time, taught it some manners. With our digital phones, you choose the ways you connect with others through voice, caller ID, paging, voice mail and data options. So you are in charge of when and how you'll be in touch. When you are, you'll be supported by QUALCOMM's advanced CDMA digital technology. It provides the highest quality voice transmission as well as enhanced security to guard against cloning and fraud. Wireless technology will make your life easier, now that we've domesticated it. Everything else in the arena is, frankly, quite beastly. For more information, contact us at www.qualcomm.com/tame or 1-800-349-4188 or 1-619-651-4029 (outside the USA).



Incorporated. All rights reserved. QUALCOMM is a registered service mark and registered trademark of QUALCOMM Incorporated. The stylized Q logo is a registered trademark of QUALCOMM Incorporated. Options depend on services available from your carrier. CDMA voice quality rated superior by 1997 TRAC Study.

QUALCOMM
DIGITAL PHONES

The only convertible that matters.



BusinessWeek

1998 A PUBLICATION OF THE MCGRAW-HILL COMPANIES \$3.95

VIAGRA

The New Era of Lifestyle Drugs

izer's impotence pill
more than just a
ockbuster drug to
eat a specific medical
oblem. It will
so enhance the
uality of life for
ealthy" neone.

Similar drugs lie ahead:
for anxiety, weight
problems, memory loss,
and symptoms of aging.

In the process, the
\$300 billion drug
industry will be
transformed.



BURLINGAME PUBLIC LIBRARY
480 PRIMROSE RD
BURLINGAME CA 94010-4011
#BXBGDD**5-DIGIT
#0602 1058111600#JAN99 102 0131
94010

BURLINGAME
MAY 1 - 1998
LIBRARY



sharp outfit.



● Staying on top of its market has made Eddie Bauer®
a perfect fit for millions of customers. ● Now Rockwell
automation systems are helping this catalog retailer
serve more shoppers than ever, by sorting and distributing
up to 480,000 packages a day. ● Rockwell tailors
equally productive answers for all kinds of customers.

● Whether it's the avionics that let airliners from
Boeing and Airbus navigate by satellite. ● The
semiconductor chip that extends the range of a Sony
cordless phone. ● Or the factory automation technology
that helps leading food-processing companies break
packaging records. ● Sharp solutions for companies on
the cutting edge. ● Because whatever your business, the
bottom line is this. ● *You succeed. We succeed.*

Rockwell

Electronic Controls and Communications
www.rockwell.com

COVER STORY

VIAGRA

How treatments that target conditions from impotence to obesity are changing the medical landscape

page 92

BusinessWeek

MAY 11, 1998

HOME REPAIRS

Black & Decker is getting back in the groove

page 51



Cover Story

92 VIAGRA

It's only the most sensational of the new megadrugs aimed at conditions that, while exceedingly uncomfortable, are rarely deadly. These blockbusters, which can enhance the lives of essentially healthy people, are already transforming the \$300 billion drug industry—and raising a host of difficult questions

96 THE FORMULA AT PFIZER

It pumped big money into R&D for years to produce Viagra and other drug hits

98 COMMENTARY: LIFESTYLE DRUGS

Who should pay for drugs that may be used not just to treat but to enhance?

100 DANGER: READ THE LABEL

Doctors prescribe drugs for unapproved reasons, and patients are at risk

News: Analysis & Commentary

28 SKITTISH BULLS

They aren't turning tail yet, but investors sure are worried about interest rates

30 DOES THE DIVIDEND YIELD MATTER?

It's no longer a relevant market barometer

31 COMMENTARY: THE FED

Even if Greenspan is bluffing about raising rates, it's a wily move

32 WHERE ARE AIRLINE TIE-UPS HEADED?

That's what regulators and consumer groups want to know

33 ULTIMATUM FOR THE AVON LADY

China's controversial turnabout on direct selling could become a potent trade issue

34 GODZILLA VS.—WELL, NOT MUCH

Hollywood is pruning, and this summer fewer blockbusters will butt heads

36 KIDS' TV: CROWDED IN TOON TOWN

Too many players are jumping in—and ad revenues will show it

40 MAN AND WOMAN AT HARVARD

Its B-school delayed, then fumbled student complaints of harassment

40 HARLEM RENAISSANCE, 1999

Will a megamall in Upper Manhattan reverse urban decay?

41 IN BUSINESS THIS WEEK

International Business

43 ASIA

The crisis is just getting worse as social unrest rises. A turnaround seems much further off

44 INDONESIA

Buried in debt and inventory problems, makers face a shakeout that leaves only one of them standing

46 EUROPE

More companies are buying in Europe

48 EUROPE

Consumers and business are rushing onto the Net

Economic Analysis

20 ECONOMIC VIEWPOINT

Kuttner: Why the Net is a risk that's a bit too perfect

24 ECONOMIC TRENDS

Gen-X gets shortchanged, and shun bad news, the self-employed rejoin corporate ranks

25 BUSINESS OUTLOOK

The snake in Wall Street's eye: Argentina: This party's not over



CAYMANS, HO!
Fruit of the
Loom eyes the
islands page 50



BILL'S FOCUS
Microsoft is coming
on strong in video
software page 60



SUPPLY AND DEMAND
Too many luxury sports suites,
too few companies? page 69

**PILOT-AND
PRESIDENT**
Aloft with
TWA's boss Page 74



Corporation

OF THE LOOM: MOVING ON

Chief Executive Bill Farley
to move the underwear maker
Caymans

& DECKER POWERS UP

stocking the toolbox after years
aging a hodgepodge

Information Technology

LOGY & YOU

to add storage space when your
drive can't take another byte

SOFT'S VIDEO SCRIPT

and improved NetShow is
for prime time. Can it bridge the
between PCs and television?

ALNETWORKS STAY ON TOP?

ailblazer's audio and video Web
re has long owned the market,
icrosoft plans to change all that

ts Business

IMS: FANCY SEATS GALORE

ties like Seattle may be
ilding new sports facilities

70 WHY THE YANKS WANT TO WALK

Behind the heated debate over a new
Yankee Stadium and where to put it

People

74 TWA'S BILL COMPTON: FLY BOY

How the airline pilot who is also
President is steering the airline back
to health

Finance

80 'TOO MUCH CAPITAL' IN REAL ESTATE

Are eye-popping property prices signs
of a crash? No—but a soft landing is
likely

82 REITS: WHERE THE BARGAINS ARE

The easy money is over, but plenty of
REITS remain undervalued compared
with the broader market

84 A TALK WITH SAM ZELL

The Chicago financier discusses the real
estate investment trust revolution that
he helped start

85 INSIDE WALL STREET

115 INVESTMENT FIGURES OF THE WEEK

Media

86 JOHN MALONE'S ROAD BACK

TCI is in fighting trim again, and
new alliances have positioned it for
a digital future

Personal Business

104 FUNDS: Templeton's titans

SMART MONEY: Financial-sector funds
INVESTING: Net plays for daredevils

Features

4 UP FRONT

10 READERS REPORT

14 CORRECTIONS & CLARIFICATIONS

15 BOOKS

Davis and Wessel: *Prosperity*

101 DEVELOPMENTS TO WATCH

More civilian R&D, corrective RNA,
proving the "everything theory,"
Innovations

113 BUSINESS WEEK INDEX

114 INDEX TO COMPANIES

116 EDITORIALS

Up Front

EDITED BY ROBERT McNATT

THE DEAL MILL

WILL WORLDCOM HAVE TO SLIM DOWN?

WORLDCOM CEO BERNARD Ebbers is calmly telling shareholders that his pending acquisition of MCI Communications won't be derailed by regulators. But sources close to the company say that the telco is already mulling over compromises, including the possible sale of some operations, if such a deal is necessary to win regulatory approval.

In late April, trustbusters at the European Commission formally said that they were eyeing the potential impact of WorldCom/MCI's share of Internet operations. U.S. regulators also share that con-

cern. Although the WorldCom/MCI deal is ultimately expected to win approval, some policy analysts believe that in a worst-case scenario, WorldCom would be forced to sell its own or MCI's Internet network capability.

Ebbers says such talk is premature. "Typically, [regulators] like to extract a pound of flesh here and there," he says. "It is something we've expected all along." But the company doesn't want to get caught flatfooted, either. WorldCom needs to decide

whether to spin off MCI's Internet network or satisfy regulators by keeping the network open to all comers. If it sells off a chunk of its network, rivals such as GTE would be eager to gobble up the castoffs. *Catherine Yang*



EBBERS: Calm?

STREET NEWS

THE SHORTS STILL COME UP SHORT

FOR SHORT-SELLERS, THE BULL market in stocks has rivaled the trials and tribulations of Job. For every uptick in the price of a share, they lose money, while falling prices mean profits. So the Apr. 27 drop in the Dow Jones industrial average of 147 points should have been a rare piece of good news.

It was not, though, for those who bet against Yurie Systems, a maker of telecom switches. Some traders were suspicious about a big jump in Yurie's first-quarter receivables and were wary of its reliance on a few big customers, including Lu-

cent Technologies, says Dick Gould, co-manager of the Rockland Growth Fund. So the shorts sold 3.7 million borrowed shares of Yurie, an amazing 62% of the float.

But their timing was awful. On Apr. 27, Lucent offered \$35 a share for Yurie, and its shares jumped 10%. Ouch. The short-sellers remain incognito. But those with faith won big. Besides Gould, whose fund owned 15,000 Yurie shares, other true believers were Amerindo Investment Advisors, a San Francisco firm that owned 2.9 million shares, and PBHG Emerging

Growth, a mutual fund with 378,800 shares. The lesson here? Expect the worst, and sometimes you just may be disappointed. *Robert Barker*

SHORT POSITIONS IN YURIE

MAR. 25

2.9 Million Shares

Price 21%

APR. 15

3.7 Million Shares

Price 31

RECENT PRICE

34%

DATA: NASDAQ, BLOOMBERG FINANCIAL SERVICES

TALK SHOW "I hardly have any time to read the news anymore. Mostly, I just skim the retractions."

—President Clinton, at the annual White House Correspondents' Dinner



THE FEDS

LOCKHEED'S SHIP MIGHT NOT COME IN

WHEN YOU'RE TRYING TO GET government approval for a controversial merger, you don't want a reputation as a monopolist. But Lockheed Martin could wind up with that stigma because of its eagerness to win a federal contract worth up to \$25 billion. In December, Lockheed Martin cut a deal that effectively made it the only bidder on a new destroyer. That, say defense sources, has upset the Pentagon just as Lockheed Martin is seeking Justice Dept. approval for its

DD-21: Torpedo the

merger with Northrop Grumman.

The "Dream Team" formed to bid on the DD-21 destroyer includes Lockheed Martin, Ingalls Shipbuilding, and General Dynamics Bath Iron Works. The agreement barred both shipbuilders from signing with anyone else, freezing out a bid by Raytheon; no other shipbuilder now build destroyers.

Lockheed Martin and General Dynamics say the shipbuilders asked Lockheed Martin to join their team as a systems integrator. However, after Raytheon complained to the Pentagon, the Navy said that it may revamp the bidding process on the warship to attract other bidders. Lockheed Martin has already lost some credibility. If the deal succeeds, it could lose the DD-21, too. *Stanley*

STRANGE BEDFELLOWS

A UNION LEADER THE GOP COULD LOVE

THE MESS AT THE Teamsters could be good news for Republicans. On Apr. 27, a court-appointed official gave James Hoffa the green light to run for Teamsters president. Favored to win, the son of infamous union leader Jimmy Hoffa could become head of the AFL-CIO's largest union in September, just before the fall elections. Hoffa has made it clear that he won't aggressively support Democrats, as did former President Ronald Carey, who was barred from running again after his reelection was nullified. Hoffa will probably start backing GOP candidates again, say Teamsters insiders.

The GOP is also buoyant about the indictment of former Teamsters political director William Hamilton, an-



HOFFA: No friend of Bill

nounced the same day the Justice Dept. has charged him with giving Teamsters money to Democratic liberal organizations in return for financial backing. Carey's 1996 campaign may lead to the indictment of AFL-CIO Secretary Richard Trumka, allegedly involved in a scheme, as well as the Democratic Party of William Hamilton and Trumka on all charges. *Aaron Beck*



Can you promise her the future?

You give her your time.
You give her your love.
But can you give her
everything she needs
to succeed? As tuition
costs continue to rise
rapidly, it won't be easy.

Your American Express
financial advisor can
help with financial
planning, investment
strategies and a
commitment to helping
you reach your goals.
We offer you the
expertise and insight
you need to make
smarter decisions. So
you can take control
of your future.

Call 1-800-GET-ADVICE
and own your world.

<http://www.americanexpress.com/advisors>

do more



**Financial
Advisors**

Up Front

MAD AVE

WHY MADD IS MAD AT BUD



BEER LIZARD: *Kid stuff?*

BUDWEISER'S TALKING FROGS and lizards have become the most popular TV commercial for kids ages 6 to 17, according to a new survey. And that has plenty of parents hopping mad.

Minneapolis ad agency Campbell Mithun Esty, which did the survey, says kids like the humor, animals, and story line. During the Super Bowl, Bud even hinted the lizards might kill the frogs to become

the beer's new official spokesbeast. (It was just a tease.) Carolyn Nunnallee, president of Mothers Against Drunk Driving, is not amused. "The Budweiser Frogs are the Joe Camel of the alcohol industry," she says.

MADD and the American Association of Pediatricians are lobbying Anheuser-Busch, Budweiser's corporate parent, to pull the ads. They also want the Federal Communications Commission and Federal Trade Commission to curb them. But a Bud spokeswoman says: "Advertising does not promote teen drinking. Our advertisements are intended to appeal to adults."

As for the kids, 8-year-old Hilary Callas of Moline, Ill., says: "I know I can't have a beer because I'm too young. But if I could, I'd want to have a Budweiser. I like the frogs." Neither parent drinks. *Ann Therese Palmer*

FAT WALLET

SOAKING THE RICH DOES WORK

THE CASE AGAINST raising taxes on the superrich is under attack—from an economist at the University of Chicago's Graduate School of Business, of all places.

Some economists have long argued that raising taxes on the superrich will discourage them from working, and provide little new tax revenue—or even reduce it. But in a new study from the National Bureau of Economic Research, Austan Goolsbee says this isn't so. Unlike



EISNER: *Tax hikes don't idle him*

previous studies, which used tax-return data and found revenue fell when taxes rose, Goolsbee used executive-compensation figures from 1,500 corporate proxies in the five

years surrounding a 1993 tax hike—a better measure, he contends.

He found that these execs' income, excluding stock options, was twice as responsive to growth in GDP as lower-income groups' and 50% more responsive to growth in company earnings. That means in a growing economy, their earnings rose despite the '93 tax increase.

What earlier studies captured, he says, is the ability of execs to shift earnings in anticipation of tax increases. Walt Disney Chairman Michael Eisner's income fell in 1993, not because of tax disincentives but because

he cashed in stock options in 1992. But true to Chicago school conservatism, Goolsbee doesn't favor soaking the rich—he wants lower taxes for everybody. *Peter Coy*

DRAWN & QUARTERED



SILICON CULTURE

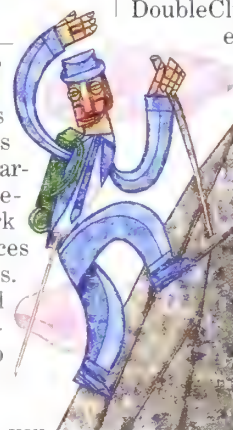
THE ORGANIZATION SHERPA

EVEN IN A FIELD rife with wacky titles, Lee Nadler stands out. Nadler is director of global marketing at DoubleClick, a New York company that places ads on Internet sites. Nothing unusual about that. But officially, he is also DoubleClick's marketing Sherpa.

That's not a title you hear every day in Manhattan. Nadler, who has been with DoubleClick since 1996, says he chose the moniker after a 10-day hike in Nepal, where he gained a healthy respect for Sherpas—the clans that serve as Himalayan guides.

So now he wants strength, calm, and focus for his new job of spearheading DoubleClick's international expansion.

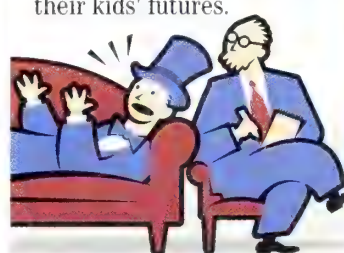
Title-wise, Nadler is following a well-trodden path at Internet companies. At Yahoo! Inc., co-founder David Filo and Jerry Yang are known as chief yahoos. Jim McCoy is systems administrator. The title is theater of protocols. And both Microsoft and Microsoft employ evangelists, folks who preach the corporate gospel to developers. In the game, everyone, it seems, is trying to move to a new plane. *Heather*



THE BIG PICTURE

WHAT DO RICH PEOPLE WORRY ABOUT?

Like most other people, the rich are worrying less about financial affairs these days. But they still worry a lot about their kids' futures.



CERTIFIED PRE-OWNED LEXUS

NOW LEXUS IS MILES AND MILES
AHEAD OF THE COMPETITION.
THE 3-YEAR/100,000-MILE WARRANTY.*



What better way to distance ourselves from the rest of the field? Introducing the groundbreaking Lexus of Warranties: 3 years and 100,000 total vehicle miles on every Certified Pre-Owned Lexus. It's like no other pre-owned automobile warranty around. And every Certified Pre-Owned Lexus comes with 24-hour Roadside Assistance, passes a rigorous 128-point inspection and is available with incredibly affordable financing. So while it's true that we're miles ahead of the competition, for you, owning a Lexus is closer than you think. Test-drive a Certified Pre-Owned Lexus today. Only at your Lexus dealer.



**CERTIFIED
Pre-Owned**

ONLY AT YOUR LEXUS DEALER

www.lexuscpo.com

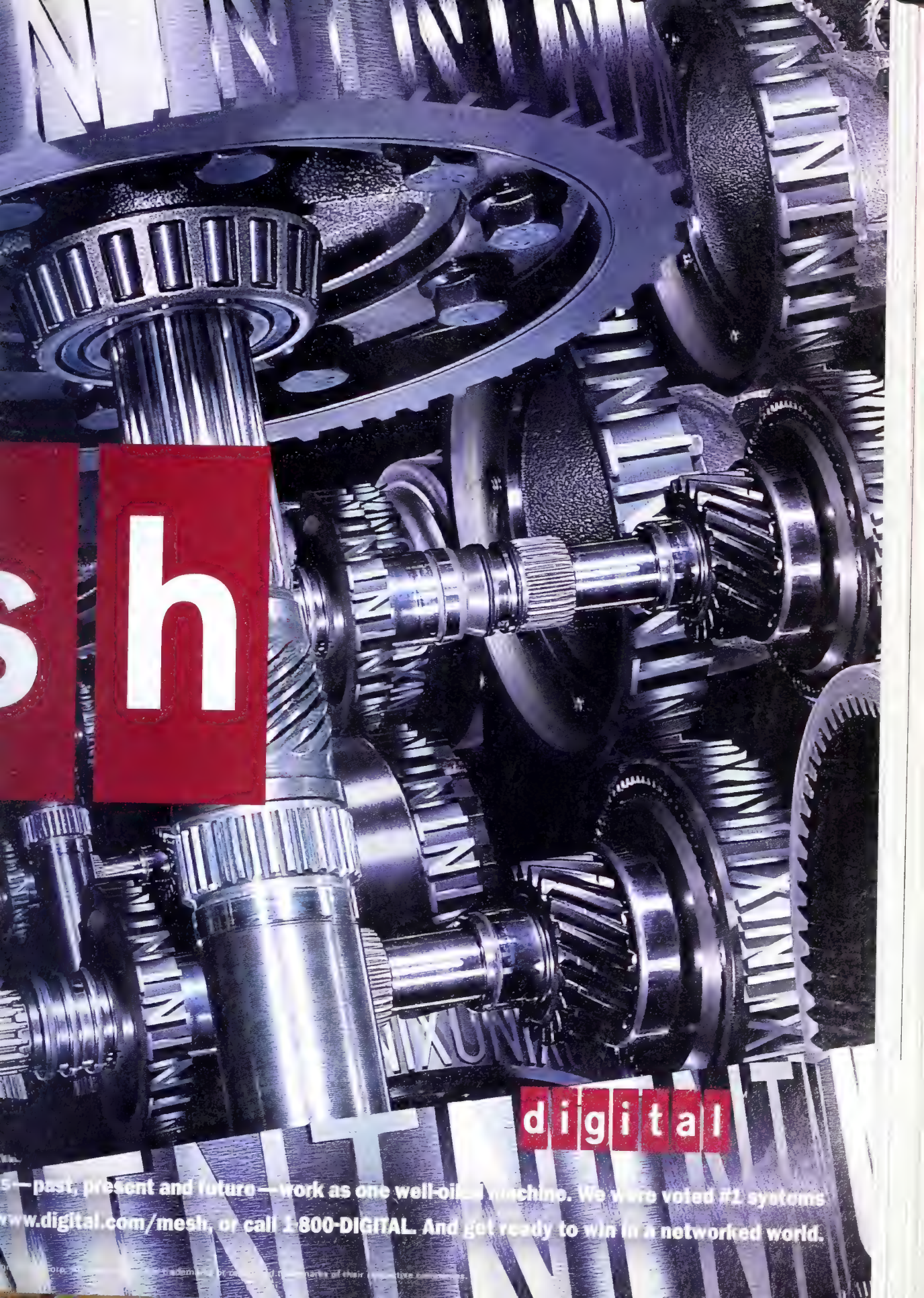
©1998 Lexus, a Division of Toyota Motor Sales, U.S.A., Inc. Lexus reminds you to wear seatbelts, secure children in rear seat and obey all speed laws. *Minimum 40,000-mile warranty coverage for Lexus CPO vehicles. See your CPO Lexus dealer for details on the limited warranty, available finance rates, and Roadside Assistance.



me

In a world too ready to abandon the last great thing for the next great thing, we make a
integrator, so whether it's OpenVMS, UNIX or Windows NT, no one's better at making it all work

© 1997 Analog Computer World, Inc. All rights reserved. Analog Computer World, Inc. is a registered trademark of Analog Computer World, Inc. All other trademarks are the property of their respective owners.



sh

digital

—past, present and future—work as one well-oiled machine. We were voted #1 systems
www.digital.com/mesh, or call 1-800-DIGITAL. And get ready to win in a networked world.

© 1997 Digital Equipment Corporation. All rights reserved. Digital, the Digital logo, and the Digital logo are trademarks of their respective companies.

EDITOR-IN-CHIEF: Stephen B. Shepard

MANAGING EDITOR: Mark Morrison

CHIEF ECONOMIST: William Wolman

ASSISTANT MANAGING EDITORS:

Sarah Bartlett, Robert J. Dowling, G. David Wallace

ART DIRECTOR: Malcolm Frouman

CHIEF OF CORRESPONDENTS: James E. Ellis

SENIOR EDITORS: Bob Arnold (New Media), Frank J. Comes, William Glasgall, Geoff Lewis, Paul Raeburn, Kathy Rebello, Jane A. Sasseen, Ciro Scotti, Lee Walczak (Washington), Elizabeth Weiner, Chris Welles, Seymour Zucker

EDITORIAL PAGE EDITOR: Bruce Nussbaum

SENIOR WRITERS: Robert Barker, Anthony Bianco, John A. Byrne, Jeffrey M. Laderman, Gene G. Marcial, Karen Pennar, Otis Port, Gary Weiss

ECONOMICS: James C. Cooper (Sr. Economist/Bus. Outlook ed.), Kathleen Madigan, Michael J. Mandel (Economics ed.), Peter Coy, Gene Koretz (Trends ed.), Christopher Farrell (Contributing ed.)

INTERNATIONAL: Christopher Power (Asian Edition ed.), Rose Brady (European Edition ed.), Duane E. Anderson, Pete Engardio, John Warner (Sr. news eds.), John Templeman (Political affairs), Sheri Prasso (Asia), John Pearson (Latin America), Kerry Capell (Finance)

ASSOCIATE EDITORS: Catherine Arnst, Aaron Bernstein, Dan Beckue, Amy Dunkin, Rick Green, Neil Gross, Keith H. Hammonds, Kelley Holland, Larry Light, Ira Sager, Leah Nathans Spiro, Fred Strasser, Pat Wechsler

PICTURE EDITOR: Lawrence Lippmann

SENIOR ART DIRECTOR: Francesca Messina

DEPARTMENT EDITORS: Books: Hardy Green. Corporations: Nanette Byrnes,

I. Jeanne Dugan. Enterprise: Robin D. Schatz. Legal Affairs: Mike

France. Management: Jennifer Reingold. Marketing: Ellen Neuborne

Markets & Investments: Suzanne Woolley. Money & Banking: Debra

Sparks. People: Eric Schine. Personal Business: Edward C. Baig

Personal Finance: Todd Gutner. Scoreboards: Frederick J. Jespersen

Software: Amy Cortese. Technology Strategies: Marcia Stepanek

Telecommunications: Peter Elstrom. Up Front: Robert McNatt

STAFF EDITORS: Lori Bongiorno, Heather Green, Joan Kleck, Edith Uplik

COPY EDITORS: Prudence Crowther, Hany Maurer (Deputy chiefs), Marc

Miller, Jim Taibi (Asst. chiefs), Tim Belnap, Alea Davies, Jack Robbins,

Doug Royalty (Sr.), Giles Blunt, Joseph Mandel, Anne Newman, Dan

Pengilly, Malka Percal, Lourdes Valeriano. Researchers: Maria Chapin, Gail

Flower, Aida Rosano, Oluwabunmi Shabi

PRODUCTION COPY EDITORS: Lawrence Dark (Chief), Hallberg Hallmundsson,

Celine Keating, B. Kite, Robert S. Norman, Robert J. Rosenberg, Victoria

Rubin

ART: Jay Petrow, Steven Taylor (Deputy dirs.), Don Besom, Alice Cheung,

Andrée Kahlmorgen, Christine Silver (Assoc.), Peter Marshutz (Asst.),

Graphics & New Media: Arthur Eves (Creative dir.), Joan Danaheer

(Graphics dir.), Rob Doyle (Assoc.), Jaime Beauchamp, Alan Baseden, Lisa

Knouse Braiman, Alberto Mena, Ray Vella (Illustrators), Eric Hoffmann,

Imaging: Annette Farrell (Mgr.), Alan Bomzer (Asst.), Leo Nietzer, Joseph

Rhames

PHOTO EDITORS: Scott Mlyn (Deputy), Ronnie Weil (Sr.), Michael Hirsch,

Anne Murray, Andrew Popper, (Assoc.), Bettina Baudoin, Kathleen Moore

(Asst.), M. Margarita Eiroa, Lawrence Crowe, Sarah Greenberg Morse

(Researcher)

EDITORIAL OPERATIONS: Yvonne F. Rodriguez (Director), Wally Baudin,

Nicholas M. White (Mgrs.) Karen Butcher, Francisco Cardozo, Thomas R.

Dowd, Nancy Gores, Stephen R. Lebrun, Jody A. LoGrasso, Jose L.

Martin, Peter K. Niceberg, Jane M. Perkinson, Laura Reissman, Karen

Turk, Ilse V. Walton, Barbara Wilhelm, Donald C. Pearson, Guillermo Ortiz

EDITORIAL TECHNOLOGY: Thomas L. Morgan (Director), Richard Balestrino,

David Bandler, Marie Bryant, Beth Higgins, James Kutz, Neil MacLeod,

John Navarro, Juan Rodriguez, Marta Skrelja, Craig Sturgis, George White

BUSINESS WEEK ONLINE: Michael Mercurio (Managing ed.), A. Peter

Clem, John A. Dierdorff, John Johnsrud, Dennis K. Berman, Nadav

Enbar, Paul Eng, Patrick Lambert, Diane Young

CORRESPONDENTS: Atlanta: David Greising (Mgr.), Nicole Harris. Boston:

William C. Symonds (Mgr.), Paul C. Judge, Geoffrey Smith. Chicago:

Richard A. Melcher (Mgr.), Roger O. Crockett, David Leonhardt, Andrew

Osterland, DeAnn Weimer. Cleveland: Peter Galuszka (Mgr.) Connecticut:

Susan Jackson. Dallas: Wendy Zellner (Mgr.), Stephanie Anderson Forest

Detroit: Kathleen Kerwin (Mgr.), Keith Naughton, Bill Vlasic. Houston: Gary

McWilliams (Mgr.) Los Angeles: Ronald Grover (Mgr.), Larry Armstrong (Sr.

correspondent), Steven V. Brull, Kathleen Morris. Miami: Gail DeGeorge

(Mgr.) Philadelphia: Amy Barrett (Mgr.) Pittsburgh: Stephen Baker (Mgr.)

San Francisco: Peter Burrows, Steve Hamm, Linda Himestein, Robert D.

Hof, Andy Reinhardt. Washington: Owen Ullmann (Sr. news ed.), Douglas

Harbrecht (News ed.), John Garey, Paula Dwyer, Howard Gleckman (Sr.

correspondents), Amy Borus, Stan Crook, Richard S. Dunham, Dean

Foust, Susan B. Garland, Paul Magnusson, Mike McNamee, Stephen H.

Wildstrom (Tech & You), Catherine Yang. Frankfurt: Thane Peterson

(Mgr.), Karen Lowry Miller, David Woodruff. Hong Kong: Joyce Barnathan

(Mgr.), Mark L. Clifford, Bruce Einhorn. London: Stanley Reed (Mgr.), Julia

Flynn. Mexico City: Geri Smith (Mgr.) Moscow: Patricia Kranz (Mgr.) Paris:

Gail Edmondson (Mgr.) Rome: John Rossant (Mgr.) São Paulo: Ian Katz

(Mgr.) Singapore: Michael Shari (Mgr.) Tokyo: Brian Bremner (Mgr.), Robert

Neff (Contributing ed.), Irene M. Kunii, Emily Thornton. Toronto: Joseph

Weber (Mgr.)

EDITORIAL SERVICES: Broadcasting: Ray Hoffman. Business Manager:

Barbara Boynton. Information Services: Jamie B. Russell (Director),

Karen Stevens (Mgr.), Judi Crowe, Debra Deskin, Fred Katzenberg,

Robert Roeker, Susann Rutledge, Barbara Silverbush. Office Manager:

Roselyn Kopit. Communications: Robert Pondiscio (Director), Christine

Summerson. Readers Report: Yvette Hernandez. Reprint Permission:

Janet Gonzalez

PUBLISHER: David G. Fern

Sr. VP, ASSOCIATE PUBLISHER: William P. Kupper Jr.

Sr. VP, OPERATIONS: Gary B. Hopkins

Sr. VP, MARKETING & BRAND DEVELOPMENT: Harold K. Somerdyk

Sr. VP, STRATEGIC PLANNING & PRODUCT DEVELOPMENT: Kimberly Greer

VPS, SALES: Constance E. Bennett (International), Joanne K. Bradford

(Western Region), Dan Dunn (Midwestern Region), Robert H. Kelly

(Northeast Region), Louis R. Mohn (Southeast Region)

VP, STRATEGIC PROGRAMS: James H. McGraw IV

VP, SALES DEVELOPMENT: Mark A. Flinn

VP, MANAGING DIRECTOR/ASIA: Stephen B. Moss

VP, MANAGING DIRECTOR/EUROPE: Fritz Krusebecker

VP, TECHNOLOGY: Thomas J. Reed

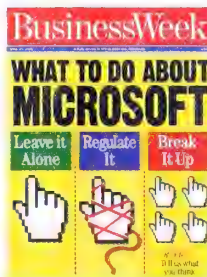
VP, CONTROLLER: Jeffery J. Leach

DIRECTOR, ADVERTISING BUSINESS: Linda F. Canavaho

DIRECTOR, PRODUCTION & SALES SERVICES: Mario J. Talluto

BREAK UP MICROSOFT? A RECORD RESPONSE-AND MOST SAY 'NO'

When BUSINESS WEEK asked readers to weigh in on the future of Microsoft Corp. in our Apr. 20 issue, we had no idea what we were unleashing. Impassioned responses came flooding in from Tibet, Israel, and Germany, from 15-year-olds and grandmothers, from English professors, cops, and big-time corporate



chief information officers. In all, more than 5,000 people responded—a record for BUSINESS WEEK. The verdict according to 67% of voters: The Justice Dept. should keep its hands off Microsoft. Here is a sample of comments, followed by a collection of letters to the editor about our Cover Story:

AN E-MAIL SAMPLER FROM BILL GATES'S FRIENDS AND FOES

We must be living in a great time of happiness, peace, and wealth for the Justice Dept. to have the time to badger great companies. I wish you had polled us on how would we like our tax dollars spent. What would we have voted for? Do more to fight violent crime. Bill Gates isn't the reason we lock our doors and watch our backs at the ATM.

The Horne Family
Flower Mound, Tex.

YOUR VOTE

With 5,072 responses, the tally showed lopsided support for Microsoft

DO NOTHING	67%
REGULATE	22%
BREAK IT UP	11%

You left out an important choice: keep talking about it. The limelight has already toned down Microsoft's more predatory practices with respect to [PC maker] contracts.

Dennis Flanagan
Bothell, Wash.

I am an outsider with no voting rights. But I think you should leave Microsoft alone and remember all those jobs Bill Gates created for Americans. He will be able to keep those people employed if you let him go on developing software.

Jorgen Andersen
Copenhagen

[We're] for splitting up Microsoft. As long as it stays one behemoth, it will be under Bill Gates, whose tactics will never change. Those who favor doing nothing are like the conservatives in the last century, when railroad robber barons ignored the public good. Microsoft, like the railways, provided many benefits, but it will do damage as well.

Tsee Yuan and Tsee Yung Lee
Ridgewood, N.Y.

Microsoft has only begun to exploit the advantages that can accrue to a company that controls the operating system. Even separated from the applications company, the company that controls the OS is far too dangerous to leave unregulated. We should regulate the OS business as a worldwide public utility.

Steve Burkhardt
Cary, N.C.

I vote for Microsoft becoming two separate companies. A lot of my games no longer work in Windows 95, maybe they will be more attentive to the compatibility of their operating system if they are a single operating system company.

Michael Johansen
Seattle

Harsh as it sounds, the best course is to break Microsoft up into two separate companies. No matter how benevolent an organization is or is not, nothing beats competition.

Hans Spielmann
Culver City, Calif.

The correct alternative is: Justice should apologize profusely to Microsoft and to the voters for wasting Microsoft and the taxpayers' money.

Dick Miller
Whitefield, N.H.

You missed an ideal solution for the government to deal with Microsoft: instead of trying to break up or regulate Microsoft, why not stop being its biggest customer?

Our tax dollars have been heavily

Bill Gates's monopoly. The gov-
t and many publicly funded in-
ns use enormous numbers of
l computers and Microsoft soft-
ven where the Macintosh is be-
d, computer managers using
ment funds are replacing them
indows machines. This could be
eversed.

Brian Renner
Chicago

WON'T DRINK SOFTWARE AS AMERICANS LIKE COLAS'

an excellent set of articles ("What
about Microsoft," Cover Story,
etc.) overlooks two factors that
affect how Microsoft Corp.'s monop-
oly in operating systems affects
the nation.

First, we don't drink our software
as Americans like colas or wear them out
as fast as cars. Once I have a copy of Win-
dows Office, it will last until I decide
to replace it with something better.
Microsoft must constantly compete with
other operating systems going to take the right com-
bination of features and price to get
a significant portion of the 250 million
users using Microsoft operating
systems to upgrade to the next version.
If Microsoft stops innovating, it stops
growing.

Second, with the huge installed base
of Windows-based software and the
enormous amount of time that has
been spent learning how to use it, it is
difficult that any company could now
develop an operating system innova-
tion that is incompatible with exist-
ing software.

Once a standard has been set, we are
locked into network economies that stem
from the standard and even if Microsoft were to
change tomorrow we will probably

have only incremental innovation for
some time to come.

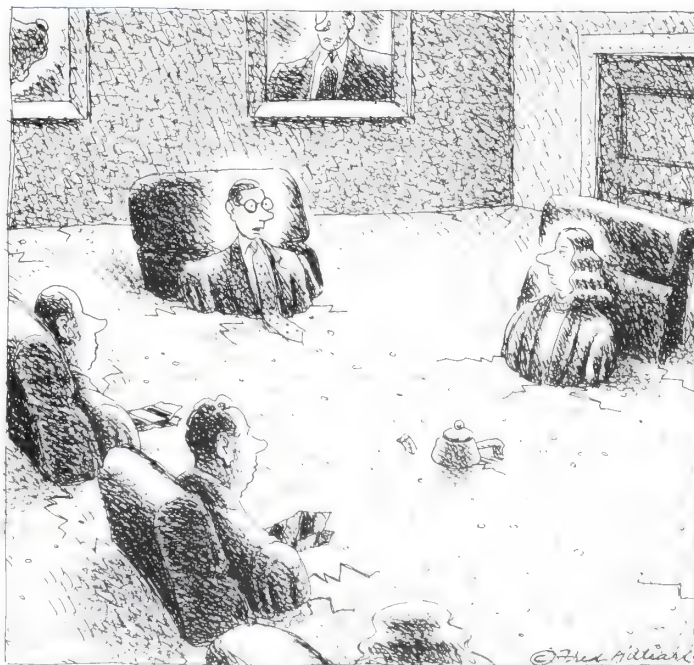
Kit Sims Taylor
Bellevue, Wash.

Break up Microsoft—the operating
system company and the applications
company. The current situation is hurt-
ing everyone—the users and the whole
PC software industry, including Micro-
soft. The current PC desktop is domi-
nated by a third-rate operating system
and that domination is being used to

successfully hoist mostly second-rate ap-
plications onto the world's PCs.

Just ask any PC user (power users or
novices, it doesn't matter) whether they
look forward to installing new or up-
graded software. Invariably the answer
will be "no." The reason is the fragile
Windows operating system that per-
mits every application to modify, in un-
predictable ways, what should be pro-
tected operating system files. The
result is a reluctance by users to add,
replace, or upgrade applications as of-

WillTales



*"They're saying we're a bit set in our ways. Perhaps
a move from the Inflexible Phone Company
to Williams is a gutsy move we could make safely."*

Business Week



A Division of The McGraw-Hill Companies

ISSN 0007-7135 *** 3577

Published weekly, except for one week in January and one in August, by
The McGraw-Hill Companies, Inc. Founder: James H. McGraw (1860-1948)
Editorial, Circulation, and Advertising Offices: The McGraw-
Hill Companies, 1221 Avenue of the Americas, New York, N.Y.
10020-1095. Phone: 212-512-2000. Telex: Domestic 127039; Intl. 2380127039.
Subscription rate: \$54.95 per year; 2 years, \$79.95; 3 years, \$99.95.
Single copies, \$5. Write for rates in other countries.
Prices: 1-800-635-1200 TDD 1-800-554-1579

Send address changes to BUSINESS WEEK, P.O. Box 430,
Hightstown, N.J. 08520. Periodicals postage paid at New York, N.Y., and
at additional mailing offices. Postage paid at Montreal, P.Q. Canada Post
Publications Mail Product Sales Agreement No. 246484. Reg-
istered as The McGraw-Hill Companies, Inc. GST #R123075673. Copy-
right ©1998 The McGraw-Hill Companies, Inc. All rights reserved. Titles reg-
istered: Patent Office, European Circulation Center, McGraw-Hill
Companies, Inc. (UK), London, England. Telephone: 01825-2441. Telex: 55540
McGraw-Hill Companies, Inc. Joseph L. Dionne, Chairman
and Chief Executive Officer; Harold W. McGraw III, President and Chief
Executive Officer; Kenneth M. Vittor, Senior Vice President and General
Manager; J. Bahash, Executive Vice President and Chief Financial
Officer; D. Penglass, Senior Vice President, Treasury Operations;
John J. Phipps, Senior Vice President, Information Services Group.

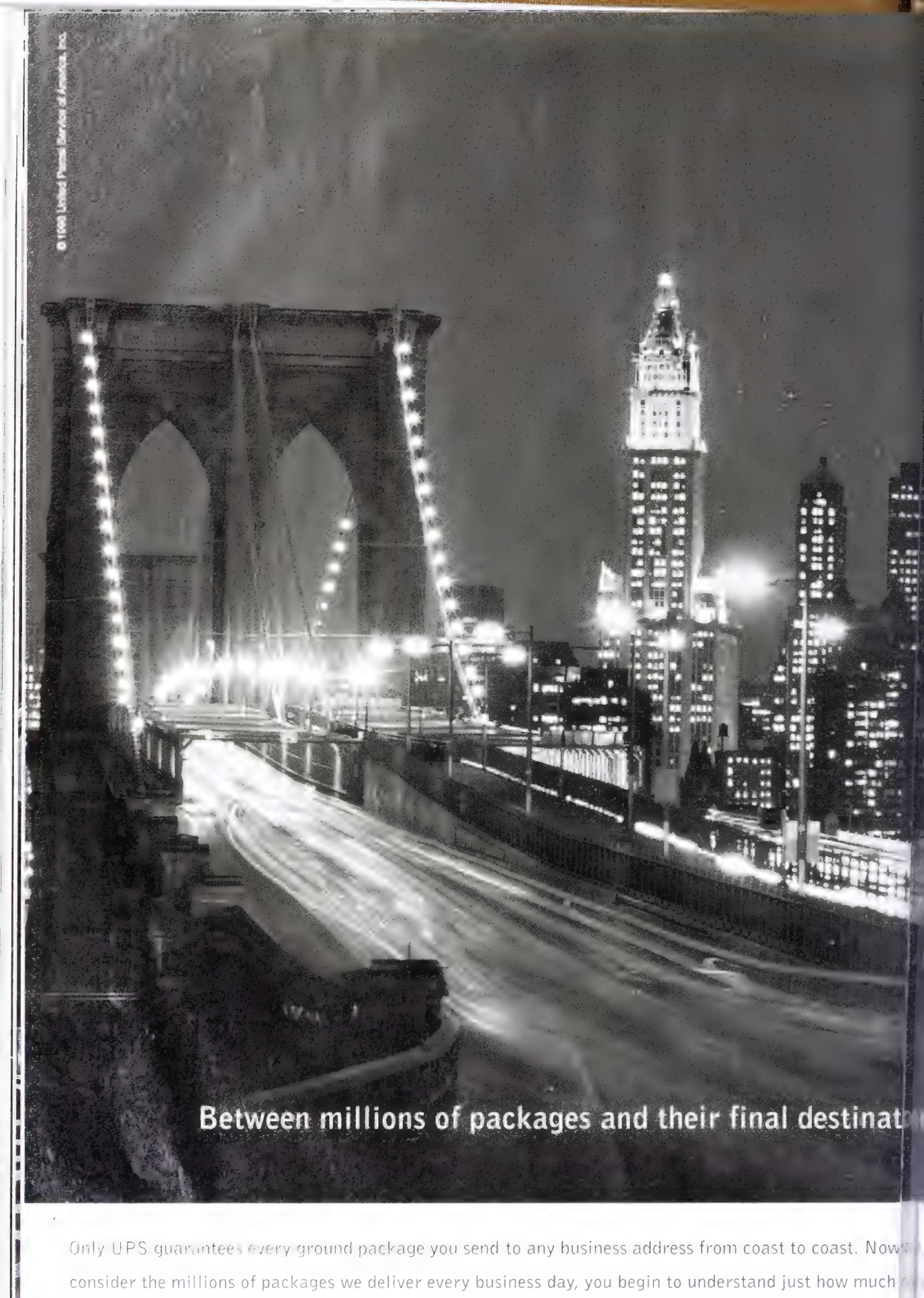
PERMISSION: Where necessary, permission is granted
to the owner for those registered with the Copyright Clearance
Center, 222 Rosewood Drive, Danvers, MA 01923, to photocopy any
page for the flat fee of \$1.00 per copy of each article. Send pay-
ment to CCC. Copying for other than personal or internal reference
without express permission of The McGraw-Hill Companies, Inc. is
prohibited. Requests for customized bulk reprints to Business
Week should be sent to Business Week, P.O. Box 457, Hightstown,
N.J. 08520, or call 609-426-5404.
©1998 The McGraw-Hill Companies, Inc. PRINTED IN THE U.S.A.

that **Williams** network
11,000 fiber miles laid, lit and ready to ride.



Visit www.willtapes.com, or call 1-800-WILLIAMS, for solid — yet flexible — telecom solutions

©1998 The Williams Companies, Inc.



Between millions of packages and their final destination

Only UPS guarantees every ground package you send to any business address from coast to coast. Now consider the millions of packages we deliver every business day, you begin to understand just how much



road. **Introducing Guaranteed Ground. Only from UPS.**

shipment will arrive by the day it's promised—the precise day—or your money back. And when you really covers. Go to www.ups.com or call 1-800-PICK-UPS. MOVING at the SPEED of BUSINESS.

ups

Readers Report

ten as they might—this hurts sales and it hurts innovation.

A stand-alone operating systems company would hopefully strive to provide the most competitive, flexible, and robust operating platform, rather than the current situation whereby the operating system is basically used as the marketing tool of an application software company.

Leon A. Kappelman
Denton, Tex.

In dealing with Microsoft's dominance, an additional option is adopting mandatory standards in the field of data accessibility, similar to the standards that are applied to water or electric installation systems. No one is afraid that one manufacturer will give away water pipes for free, since all the other manufacturers can still make products that can be connected to these pipes.

Likewise, if the files of word processors, spreadsheets, and all the other applications met an official standard of accessibility, the dominance of Microsoft would not prevent other manufacturers from developing products, and the users would not be afraid to purchase them. Such a standardization may inhibit innovations, but since it promotes competition, in this case it would be justified.

Abraham Meidan
Tel Aviv

Your issue raises the many age-old questions about regulation and monopolies. In reality, Bill Gates & Co. have managed to bring millions of people into the technological age. If it were not for Steve Jobs and the Apple aristocratic thinking, his company might be the cover story. It is Apple, after

CORRECTIONS & CLARIFICATIONS

In the table accompanying "Telecom Giants" (Special Report, Apr. 6), Nokia Corp.'s 1997 revenue should have been \$9.8 billion, up 34% from 1996, and 1997 net income should have been \$1.2 billion, up 52% from 1996. Telebras' 1997 revenue should have been \$14.2 billion, up 18% from 1996, and 1997 net income should have been \$3.5 billion, up 30% from 1996.

In "Munsingwear will take this rap" (Up Front, Apr. 13), sales of the brand grew from \$30 million in 1996, not 1997, to a projected \$175 million in 1998, including licensed products.

The book value of Capital Cities/ABC's net assets when purchased by Walt Disney Co. was \$5 billion ("Mergers: Crack Down on Stupid Accounting Tricks," News: Analysis & Commentary, May 4).

all, that brought us the wonderful invention of windows and the wonderful mouse.

So let's get to the issue: Microsoft should be watched, not disassembled. Its current software still relies on a basement full of DOS, so until Microsoft wanders totally into a more efficient user interface, it should be prohibited from doing the things Bill Gates used to accuse IBM of doing.

Watch Microsoft like a hawk and prohibit truly unfair practices, but for everything else leave them alone.

Philip A. Guercio
Palmetto, Fla.

We're stuck with Windows on the desktop. If the development of information technology is to continue at its current pace, Microsoft must be prevented from further extending its hegemony and be required to compete on a level playing field.

Specifically, the company should be required to divest itself (and its operating systems) of Internet Explorer; perhaps to Spyglass Inc., from whom it currently licenses the Mosaic technology at the heart of all browsers. A piece of the windfall might even be returned to the taxpayers, who, after all, provided the funding for the development of Mosaic in the first place. Microsoft should be given the choice of creating a level application-programming-interface playing field or divestiture of its applications business.

Andrew Allison
Carmel, Calif.

In your story, you argue for Justice action to increase innovation in the industry. Some may argue that the pace of change spurred by new technology is actually too fast! The information systems community and users in general already have a hard time assimilating new technology. Product cycles and depreciation schedules are already dangerously thin.

The marketplace provides tremendous competition and opportunities to the resourceful. Even as Microsoft significantly raising its prices, freeware is getting a new look. Linux is being used as an Internet hosting operating system at many sites, and Apache Internet server software is used at more sites than Microsoft's. The bottom line is that I'm suspicious of a federal fix—a problem that doesn't exist. I don't think I could afford a "fix" of Microsoft.

I. Henry K...
Manager, Information Systems
City of Allentown
Allentown, Pa.

No one ever mentions the one most controlling factor: the behavior of the consumer. My IBM Aptiva came bundled with three ISP selections. I chose one and disregarded the others, including MSN. The computer came with the Lotus SmartSuite installed; I installed Microsoft Office at my choice. And I have installed both Microsoft Internet Explorer and Netscape Navigator, using either when one is a better choice than the other. If you let the marketplace decide, it will. We don't need the Justice Dept. to decide for us.

Chris Erickson
Rancho Dominguez, Cal.

FINDING US ONLINE



The full text of Business Week, the Business Week Daily Briefing, and six years of BW archives are available on the World Wide Web at:

www.businessweek.com

and on America Online at Keyword: BW.

To sign up for BW on AOL, call (800) 641-4848 and mention Business Week.

Maven

Shopping for computer equipment? Visit Maven, our online Computer Buying Guide, for continuously updated ratings and price information. Go to Keyword: Maven on America Online, or to the World Wide Web at:

www.maven.businessweek.com

HOW TO REACH BUSINESS WEEK

LETTERS FOR READERS REPORT

All letters must include an address and daytime and evening phone numbers. We reserve the right to edit letters for clarity and space and to use them in all electronic and print editions.

Mail: Business Week, 1221 Avenue of the Americas 39th floor, New York, NY 10020

Fax: (212) 512-6458

Internet: bwreader@mgm.com

America Online: readersbw

SUBSCRIBER SERVICES

For individual subscriptions, corporate subscription renewals, changes or problems, and single copies. Phone: (800) 635-1200 or (609) 426-7500 Fax: (609) 426-7623.

Internet: bwhelp@mcgraw-hill.com

REPRINTS AND COPYRIGHT PERMISSIONS

For custom reprints (minimum order of 500) contact (609) 426-5494

Before quoting or reusing editorial material

Phone: (212) 512-4801

Fax: (212) 512-4938

RITY

ing 20-Year Boom and What It Means to You

Davis and David Wessel
Business • 324pp • \$27.50

HY THE PARTY ON'T BE OVER SOON

cent years, warnings of the U.S. middle class's imminent death have been thick and fast. Such books as *End of Affluence*, by Jeffrey Pfeffer, and *The Judas Economy*, by Business Week chief economist William H. Thomas and Anne Colamosca, have depicted a host of economic predators lining up for the kill. But now comes a book offering a new ending: Not only does the middle class escape but it gets a fat raise, too.

Street Journal reporters Bob Davis and David Wessel assert in *Prosperity: The Coming 20-Year Boom and What It Means to You* that three forces—technology, globalization, and automation—will, instead of hurting Americans, help them stay on top of the world and curb the widening income gap. As a result of developments in these areas, say the authors, America's middle class will, within the next 20 years, gain better jobs and raise its standard of living. Much of the book's analysis of technological developments and globalization is not new, but here the spin is positive. But the authors' take on education is fresh and alarming. And all in all, though the book suffers from overreporting, it makes a persuasive case that we're not heading for economic hell in a handbasket. The book compares the current technological boom to the ascent of electricity at the turn of the century. They argue that, even though electricity was first exhibited in 1876 at the Philadelphia Centennial Exposition, it did not achieve the productivity of the technology until the 1920s. Now, Davis and Wessel say, it will take more than another generation for computers to utilize today's new technologies fully.

One problem, they point out, is that computers are poorly designed and hard to use. Moreover, they say, companies

did not anticipate how computers would change their businesses. For instance, banks saw automated teller machines as clear productivity winners because they were cheaper than tellers and could be used 24 hours a day. But the banks failed to foresee that ATMs would change the nature of banking. Instead of taking out \$150 once a week, customers now pop over to an ATM to withdraw \$30 several times a week. "Scowling tellers, it turns out, kept bank expenses down," the book concludes.

Freer foreign trade will also mean more wealth, say the authors. Imports improve our standard of living because they bring a wider selection and, usually, lower prices. The shift of lower-paying jobs to developing countries—jobs once held by New England shoemakers and southern textile workers—has raised those nations' buying power, letting the U.S. ship more value-added goods.

We have heard a lot of this before. The rise of high tech in Bangalore, India, to which the authors devote a chapter, has already been profiled, as has General Motors Corp.'s disastrous first foray into computerized manufacturing. But when the authors turn to the subject of education, their analysis is new and insightful. They do not insist that only the Ivy-League educated will do well in the next 20 years. Instead, they say, community colleges will play a greater role in providing the retraining and work skills that will enable the middle class to enjoy what they call "broadly shared prosperity."

Indeed, this is already happening. Among the success stories offered by the authors is that of Randy Kohrs. For years, the high school graduate moved

through a series of minimum-wage jobs. Then, at age 37, Kohrs decided to go back to school. Entering a federal program that helps displaced workers get a college education, he earned a degree in respiratory therapy at Kirkwood Community College in Cedar Rapids, Iowa. Kohrs now earns \$28,475, along with such benefits as health insurance.

The book also examines the strategy of Cuyahoga Community College, Tri-C, as it is called in its hometown of Cleveland, has evolved into a vital part of the business community by teaching students the skills required by local companies. When Cleveland's demand for specialized factory workers and technicians increased, Tri-C beefed up its manufacturing offering, including programs within factories, some subsidized by the companies. At a Ford Motor Co. metal-stamping plant, Tri-C operates an educational center 44 hours a week. Workers can take classes before or after their shifts, or work on the computers

during their 24-minute breaks. It is not the typical college experience, but then, as the book points out, "most of the students aren't looking for a degree; they want skills they can use."

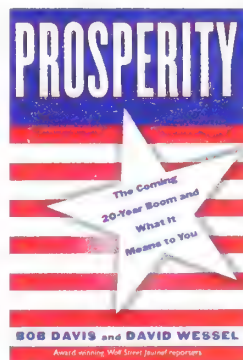
So is prosperity for all right around the corner? Any economic forecast that goes out beyond the next year is almost always derailed by surprise developments, but Davis and Wessel play down

the potential for shocks. And the book glosses over both the environmental impact of development in emerging nations and the devastation to those put out of work by the death of a domestic industry, such as textiles. Moreover, a chapter that's a virtual love letter to Federal Reserve Chairman Alan Greenspan does little to further their arguments.

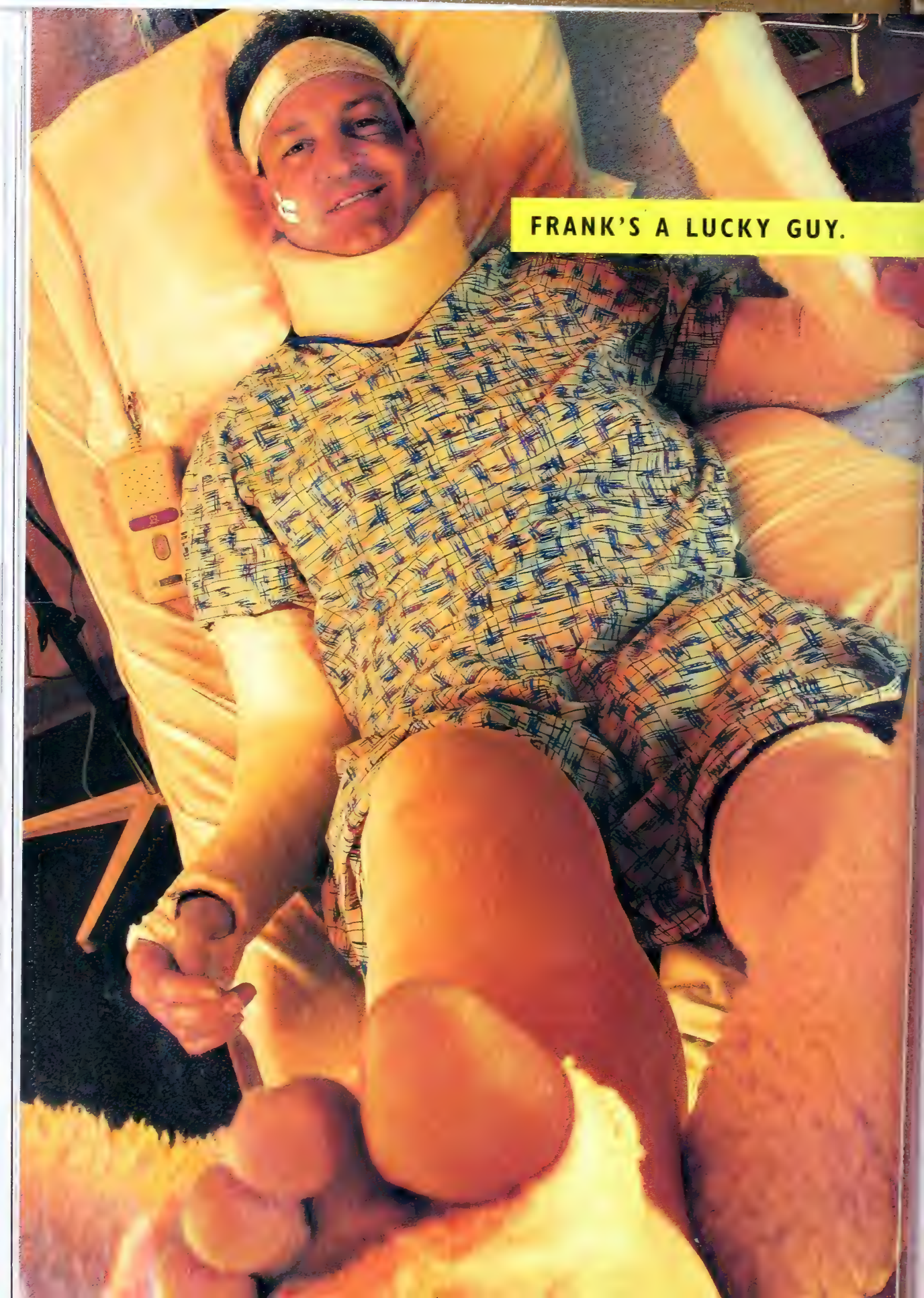
But these are minor quibbles for a book that seeks to assure America's middle class that we can stop worrying. We are not an endangered species—not as long as we use our computers for work, not to play solitaire. And it wouldn't hurt to learn a new skill at night school every once in a while.

BY KATHLEEN MADIGAN

Associate Business Outlook Editor
Madigan has studied creative writing at her local community college.



THIS SCENARIO, THE MIDDLE CLASS NOT ONLY ESCAPES EXTINCTION, IT GETS A FAT RAISE, TOO

A photograph of a man lying in a hospital bed. He is wearing a patterned hospital gown and a white neck brace. He has a white bandage wrapped around his forehead and a small white bandage on his right cheek. He is smiling at the camera. The bed has white pillows and a control panel on the left side. The background is slightly out of focus, showing a hospital room setting.

FRANK'S A LUCKY GUY.

NO PROMISES WERE BROKEN.

Commitments made, trust given in return.
Promises made and kept. It's basic to our philosophy.

We are not simply paper shufflers for hire. We ascribe to the highest standards of service, perhaps higher than you've come to expect from claims administrators. We check every box, make every phone call and follow every procedure because we know a claim delayed is suffering prolonged.

With local experts in 670 hometowns around the world, we stand ready to provide exactly what you need, exactly the way you need it. That is our promise, and we back it up with a money-on-the-table Performance Guarantee.

Whether property, liability or workers compensation, every claim represents individuals in distress. We are helping people reassemble their lives. We are acting for you, keeping your promises.



1-888-213-2533 • www.crawfordandcompany.com

BY STEPHEN H. WILDSTROM

STORAGE SPACE FOR A SONG

When your hard drive can't take another byte, it doesn't cost much to make room

In computers, closets, and kitchens, the rule is the same: You can never have too much storage space. When I bought my home computer a couple of years ago, I thought I'd never fill what seemed like a massive 2.5-gigabyte hard drive. Boy, was I wrong. Between programs, audio and video files, and I don't know what else, I have completely crammed it.

Part of the problem is the massive size of software packages. The Microsoft Plus98 add-on to the upcoming Windows 98 can install 158 MB of stuff, much of it of dubious value, on your hard drive. And you'll really need space if you work with sound or images. Photographs from the new "megapixel" digital cameras can take up 3 MB each. If you use your computer to create a 30-minute home video, you can easily use 3 GB of disk space during production.

GET HELP. Adding storage space to your home can be disruptive and expensive, but increasing your computer's capacity can be cheap and relatively simple. There are three appealing approaches: replacing your primary hard drive, adding an additional hard drive, or adding a drive that employs removable cartridges.

A stopgap measure

is to free up space on your existing drive by moving infrequently used files to high-capacity floppies, such as Iomega Zip disks or Imation SuperDisks. But even at 100 MB or so each, you may soon lose track of your cases of disks. And compared with hard drives, the disks have a relatively high cost per megabyte. For real mass storage, a hard drive of some sort is your best bet. Each of the hard-drive approaches has its advantages and its disadvantages.

For most people, adding a second hard drive is the best solution. Most late-model computers have the necessary wiring and space to mount the drive in the case. The price is certainly right. A 2.1-GB unit costs about \$150, while one with 8.4 GB, the largest drive supported by Windows 95, goes for \$350 to

\$400. (Macintosh owners generally go for external drives, which are more expensive but much simpler to install.)

Whatever you decide to get, I suggest having a pro install the new drive. Although it looks simple, pitfalls are plentiful. Some computers may need software upgrades, and you may have

lems as fixed drives. SparQ connects through printer port, while Jaz requires a special adapter called a SCSI (pronounced "suzzi"). The SyQuest comes in both SCSI and parallel-port versions.

Ease of installation is the only difference. Parallel ports transfer data

more slowly than SCSI systems. Furthermore, some parallel won't work properly if they are hooked through another device. And if you're ready have to hook up a printer and scanner—don't even think about adding another. On the other hand, adding a SCSI adapter is tricky. I've had luck with Iomega's \$100 Jaz Jit. If you're thinking of using your computer to edit some of those home videos, Iomega's \$200 SparQ is a good investment. The single easiest to install card computer SCSI adapter with



to move little plastic clips called jumpers to configure the computer properly. Computer City stores charge \$60 to install a hard drive.

Replacing your drive outright can be simpler and not much more expensive. And if you don't have space for a second drive, you don't have a choice. Here, too, I advise professional help, since you will want to transfer the contents of your old drive to the new one.

If you prefer the do-it-yourself route, consider a removable cartridge drive, such as an Iomega Jaz or SyQuest SparQ. You'll probably want to go with an external unit, since internals come with the same installation prob-

ability to capture still video and write it back to VCR or camcorder.

On a cost-per-megabyte basis, fixed disks are generally a better buy than cartridges. But removable drives are particularly useful for multimedia effects software editing, where you may want to preserve files used to produce projects.

I don't know how large drives can get. I'm looking at Dell Dimension with a drive that weighs in at staggering 13.4 GBs, although drives are on the horizon. You may not have that much room, but you'll have a computer that's tight on space, it's to know that you can't store without too much expense or effort.

Adding Capacity

DRIVE (CAPACITY)	COST	CARTRIDGE*
QUANTUM FIREBALL (8.4 GB)	\$360	--
WESTERN DIGITAL CAVIAR (2.5 GB)	150	--
IOMEGA JAZ (1 GB)	300	\$125
IOMEGA JAZ (2 GB)	650	170
SYQUEST SPARQ (1 GB)	200	40
SYQUEST SYJET (1.5 GB)	300	80

*Substantial discounts for quantity purchases



FASTER THAN A SPEEDING CIVILIZATION.

don't have to blaze through the forest, hug trees and grow a beard to escape the cruel grip of civilization. Introducing the completely reinvented 1998 Rodeo. Escape from all things urban. Its new 205 horsepower V6 can help you do that. And the new 5-link suspension dampens stress and crushes worry. So, in the name of progress and the betterment of society, relax. **THE NEW 1998 RODEO.**

Specialized Worldwide Builders of Adventure Machines



ISUZU

Go farther.

BY ROBERT KUTTNER

THE NET: A MARKET TOO PERFECT FOR PROFITS



SQUEEZED:
In cyberspace, imitators are nimble and comparison shopping is a breeze. So it's very difficult, even for innovators, to make a buck

Prophets of electronic commerce trumpet the Internet as the realization of a holy grail—a perfectly free, “frictionless” market. But practical businesspeople have noticed that Netrapreneurs often fail to turn a profit. The two observations are related.

Consider: The Internet is a nearly perfect market because information is instantaneous and buyers can compare the offerings of sellers worldwide. The result is fierce price competition, dwindling product differentiation, and vanishing brand loyalty. Imitators, especially those with deep pockets, can steal innovations as fast as they are invented and marketed.

For instance, Amazon.com Inc. invents a virtual bookstore. But Amazon knows that much larger Barnes & Noble Inc. will soon be nipping at its heels. So Amazon plows its earnings back into the one plausible defense, branding. Amazon tries to make its service unique, charming, and user-friendly and spends a fortune advertising the Amazon.com name, deferring profitability.

But in Net commerce, the whole premise is that consumers will be, and should be, fickle. So the comparison shopper can use Amazon's delightful book reviews and other nifty features and then disloyally buy the product from Barnes & Noble if the price is lower. And you can bet Barnes & Noble will use its market power to selectively underprice and otherwise undercut the upstart bookseller. It has already cut a \$40 million deal with America Online Inc. to be AOL's exclusive electronic bookstore partner. So in cyberspace, economic “rents,” the temporary, above-normal profits that reward innovation, are quickly competed away. The more perfectly competitive the market, the scarcer the rents.

STRONG SOLVENT. Bill Gates, meet Joseph Schumpeter. It was Schumpeter, the great mid-century economist, who offered the paradox that imperfect competition is necessary for efficient capitalism. Schumpeter wrote, in his classic, *Capitalism, Socialism and Democracy*, that “every grocer, every filling station, every manufacturer of gloves or handsaws” depended on a degree of market power to assure profits—a miniature monopoly in a product perceived by consumers to be unique. Historically, those minimonopolies have depended on imperfect consumer information, limited time for comparison shopping, and a lot of brand loyalty. The Internet, of course,

acts like a solvent on all of these things.

Moreover, Internet consumers are spoiled. They are accustomed to getting a great deal for free. A lot of Net enthusiasts put out information and software at no charge, just for the visibility and sense of community. But traditional media companies and publishers of Net magazines have tried to charge for their wares, and most keep pulling back. Microsoft's *Slate* is a loss-leader. Entertainment companies have seen the Net as a money sinkhole.

To be sure, some people nonetheless make money from the Internet—designing software for it, using it as a supplemental catalog, using it for information, building a client base, and so on. The Net is perfect for financial transactions, the sale of high-value-added products, business-to-business commerce, inventory tracking, and wholesale distribution. But except in rare niches, the Net produces spectacular imitation and thin margins.

CONSUMER REVENGE. Moreover, the more price information is diffused on the Net, the more adroit consumers become at haggling, and the less sellers can defend posted prices. This wreaks consumer revenge on industries such as airlines that have restored profitability by counting on consumer ignorance to charge the same product at different prices. In the case of autos. Within two years, according to J. D. Power & Associates, half of all new car buyers will use the Internet for price information, cutting into dealers' already thin margins. (BW-Mar. 9).

So electronic commerce means that the consuming public will gradually trade one set of intermediaries for another. Retail forces, insurance agents, financial brokers, and auto dealers, who often add little value, will be squeezed. Net consultants will arise to try to lengthen the shrinking half-life of Net branding, product cycles, and market power.

In one sense, the development is good news, for it revives the often-breached ideal of consumer sovereignty. But it makes less rewarding for the innovator. It is no accident that Bill Gates, champion of the frictionless electronic market, is also aggressively pursuing market power. For the late 20th century is irresistibly attractive as a defense against the former. Even missionaries for perfect markets can't stand too much perfection. Schumpeter would have understood.

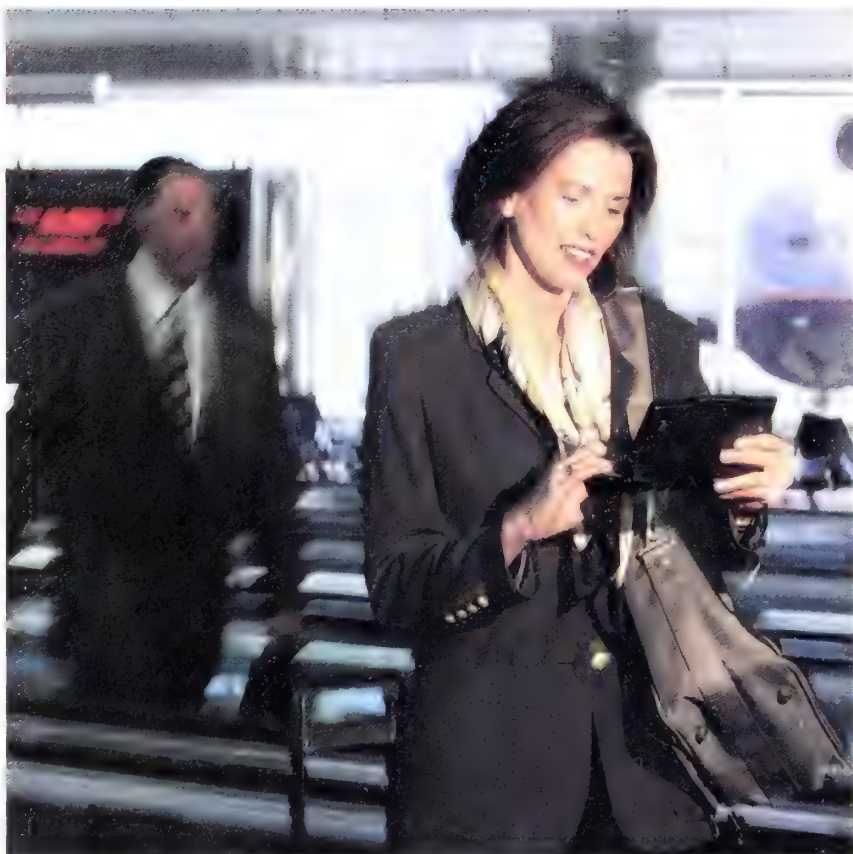
Never underestimate the importance of people.



A friendly reminder from the people who can get the best out of yours.

Hewitt

Improving Business Results Through People



"Could you possibly
be any more

Limited Time Offer



Get Windows 98 Upgrade

What, getting real work done on the move? That's the promise of the latest Handheld PCs (H/PC) — powered by Microsoft Windows CE 2.0. These H/PCs are available now, so you can check your e-mail, review memos, and practice your PowerPoint® presentation during the time it takes to get from Gate A-24 to the next concourse.

It's just like having the best of your PC with you all the time, with the Windows interface you know and pocket versions of the Microsoft Office applications you depend on. Hundreds of your favorite off-the-shelf programs, such as Microsoft Expedia™ Streets 98, Symantec ACT!, and pcANYWHERE, are available to choose from.

Don't worry about being out of date; with Windows CE's

technology, you get effortless synchronization with your desktop and server information, even files, e-mail, and meeting requests.

If your data needs to be secure, Windows CE even supports industry-standard security protocols.

And if your flight gets delayed? Review your schedule, download a file, or build that spreadsheet. Whether you're on the go or stuck waiting somewhere, Windows CE turns downtime into uptime, anytime.

Powered by



When you purchase a Handheld PC powered by Windows CE between May 1 and June 30, 1998, you are eligible to receive a coupon worth approximately \$109 to get Windows 98 Upgrade when available*. Please see your local reseller for details. For more information about the companies that provide Handheld PCs powered by Windows CE, go to

productive?"

Microsoft

BY GENE KORETZ

GEN-X GETS SHORT-CHANGED

The young earn far less nowadays

If "demography is destiny"—as economists who study population trends are fond of saying—then everything should be coming up roses for today's young workers.

Back in the 1970s and '80s, as successive waves of U.S. baby boomers entered adulthood, many experts attributed the boomers' job woes and rel-

HOW YOUNG ADULTS HAVE FALLEN BEHIND

CHANGE IN REAL MEDIAN WEEKLY EARNINGS 1979-96



▲ PERCENT

DATA: BUREAU OF LABOR STATISTICS

atively high unemployment to the large numbers of new workers crowding into labor markets. But experts also predicted things would get better for the succeeding "baby bust" generation. Indeed, *BUSINESS WEEK* opined in 1979 that this group was likely to "enjoy higher relative income and faster promotions because of sparser numbers."

Unfortunately for Gen-X, however, such predictions haven't proved accurate—at least, up to now. Indeed, according to two studies in a recent issue of the *Monthly Labor Review*, today's young adults are doing worse in economic terms than their boomer peers.

In the first study, Labor Dept. economist Kurt Schrammel notes that the number of U.S. workers age 25 to 34 fell by almost 1% each year from 1989 to 1996, after rising at an average 4% annual clip from 1970 to 1989. Yet he finds that this group's jobless rate of 5.2% in 1996 was essentially the same as it was in 1971 and 1989.

Furthermore, while real median weekly earnings of all workers declined between 1979 and 1996, they fell far more sharply (by 15%) among young adult workers—even though this group was made up of baby boomers in 1979 and of baby busters in the mid-1990s.

And this pattern of deeper declines among younger workers compared with their elders was apparent among both men and women in every major occupational grouping.

In the second study, Labor Dept. economists Geoffrey Paulin and Brian Riordon assess how singles age 18 to 29 fared in the mid-1990s compared with their single counterparts in the early 1970s and mid-1980s. Over the entire period, they find that this group suffered a real average income drop of about 11%, with more than 80% of the decline occurring in the past decade.

Single Gen-Xers also seem to have fallen behind their boomer counterparts in a key measure of social welfare: the share of income they need to allocate to basic necessities. In particular, the study finds that they now spend more of their income on necessities, such as food at home, and less on luxury goods such as recreation and related expenditures.

In short, in spite of their smaller numbers, most of today's young adults seem to have a harder time making it in the workplace than their boomer parents did. Demography may influence destiny, but it is clearly only one of many complex economic factors that decide each generation's fate.

STOCK ANALYSTS SHUN BAD NEWS

Good reports appear more quickly

Stock market investors who rely on research from their friendly broker might be well advised to scan the reports with a wary eye. The reason: Securities analysts appear far less likely to report bad news than good news.

In a study in the *Journal of Accounting Research*, Maureen McNichols of Stanford University's business school and Patricia O'Brien of York University in Toronto analyzed research reports covering nearly 3,800 companies from 1987 to 1994. The reports were written by 523 analysts employed at 129 brokerages. The results indicate that analysts as a group have a strong tendency to add coverage of stocks when their information is favorable and to drop stocks when the news turns really bad.

McNichols and O'Brien also report that analysts tend to drag their feet when they deliver bad news. While the median number of days between two upgrades of a stock by an analyst was 98, they found that the median period between downgrades was 127 days.

Perhaps not surprisingly, the researchers found that return on equity over annual intervals was higher for companies recently added to the analysts' coverage than for stocks with previous coverage, and it was much lower for stocks that had been dropped.

Why the rosy bias in stock coverage? McNichols notes that identifying "good" stocks not only enhances analysts' reputation but also is likely to generate more revenue-producing trades for the firm than bad news. And delivering bad news may hurt a firm's relationship with a current or potential customer for investment banking or other services.

Whatever the reason, investors would do well to remember that good news from analysts may come early, but bad news tends to come late—if at all.

WHAT'S WITH THE SELF-EMPLOYED?

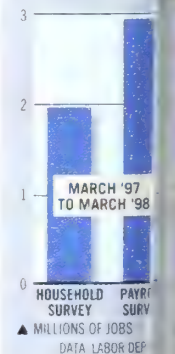
They're rejoining corporate ranks

At the current low level of unemployment, history suggests wages should be rising a lot faster than they are. A clue to why they aren't, says economist Maury N. Harris of PaineWebber Inc., may be the 1 million job gap in employment growth that opened up between the Labor Dept. and two measures of employment: its household and payroll surveys (chart).

What has happened, says Harris, is that a lot of self-employed workers who are counted as employed in the household survey are taking corporate jobs, thus adding to the payroll count. Over the past 12 months, the number of self-employed persons has plunged some 435,000—more than it rose in 1996 and 1997 combined. This shift, plus a 255,000 drop in farmworkers and a small rise in multiple job holders, appears to account for much of the stronger increase in payroll employment.

"Apparently," observes Harris, "many workers who became 'self-employed' after being downsized earlier in the decade are finally rejoining corporate ranks—and alleviating shortages in the process."

DIVERGING MEASURES OF JOB GROWTH



▲ MILLIONS OF JOBS

DATA: LABOR DEPT.

JAMES C. COOPER & KATHLEEN MADIGAN

THE SNAKE IN WALL STREET'S EDEN

1998 is looking more and more like the year reality creeps into paradise

U.S. ECONOMY

Is there trouble in paradise? Wall Street's dream combination of solid economic growth and profits, along with inflation and interest rates, is under siege. The nets have built their idea of nirvana on two beliefs: profits would continue to grow strongly and that the Federal Reserve would either stay on the sidelines because of Asia, even ease policy. Stocks and bonds are currently priced to reflect those beliefs. Recent events, however, have shaken both tenets of their roots. Despite good economic growth fueled by rising domestic demand, first-quarter profits were a bit down—probably more as a result of rising labor costs than the Asian crisis. And rumblings that the Fed has shifted its focus to the possible need to raise interest rates has hit the markets with a double dose of bad news. Nothing is more basic to stock valuations than earnings and rates, and that makes the stock market especially vulnerable right now (page 28).

The snake in Wall Street's Eden: 1998 looks more and more like the year when economic reality overtakes nirvana. That is, exceptionally strong economic growth and red-hot labor markets will eventually have unfavorable consequences for profits and Fed policy.

Asia was supposed to be the catalyst that slowed the economy to a more Fed-friendly pace. But the expansion appears to have taken Asia's best punch with a flinch. Aside from some weakness in exports and manufacturing (chart), there is nothing in the latest data to show that Asia by itself is slowing the economy enough to blunt rising labor costs or ease the Fed's long concern that overly rapid growth in 1998 could lead to inflation in 1999.

STOCK MARKET JITTERS clearly reflect these worrisome long-term bond yields rose above 6% on Apr. 27 for the first time since early March, and the Dow Jones Industrial Average fell by 286 points during the week on Apr. 28. The trigger for the big sell-offs in both stocks and bonds on Apr. 27 was an apparent leak to *The Wall Street Journal* that the Fed at its Mar. 31 meeting re-

placed its neutral policy stance with a formal bias toward future tightening, very likely reflecting the economy's persistent strength. That move doesn't mean the Fed will lift rates at its May 19 meeting, but it sent an unexpectedly hawkish message that shocked Wall Street.

Indeed, hawkish sentiment at the Fed is growing. In recent weeks, a chorus of Fed governors and district presidents have voiced their uneasiness over tight labor markets and Asia's failure to slow the economy. Most recently, a Reuters report on Apr. 29 said that an upcoming publication by the Cleveland Fed warns of the inflation risk of current monetary conditions.

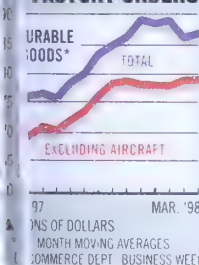
History shows that, prior to a rate hike, Fed Chairman Alan Greenspan tries to prepare the markets with some tough talk. His first opportunity will be in Nashville on May 2, followed by a speech in Chicago on May 7. Some jawboning might serve as a surrogate for Fed tightening if it raises long-term interest rates and knocks some air out of the stock market. However, previous efforts in that direction have produced only transitory results.

FED POLICYMAKERS KNOW that low rates and huge wealth gains have played key roles in consumer spending and housing. A buying frenzy by households led economic growth last quarter, and consumers began the second quarter as euphoric as ever. The Conference Board's index of consumer confidence rose to 136.7 in April, up from 133.8 in March and close to the 29-year high of 137.4 set in February (chart).

Jobs and incomes are driving optimism. More people in April than in March expected overall employment and incomes to rise in the next six months. Consumers' happy state also reflects the soaring stock market, since about 42% of households own stock, according to Fed data. And because of the great returns consumers are earning on their investments, they can spend more and save less.

What is uncertain, though, is how small investors would react in the face of a major correction. Although investors may not liquidate their holdings, especially those held in 401(k) plans, the "lost wealth" feeling

ASIA TAKES A TOLL ON FACTORY ORDERS



CONSUMERS REMAIN EUPHORIC



Business Outlook

may put a damper on household spending, exacerbating any resulting economic slowdown.

Consumers have also reaped a huge benefit from the buoyant bond market via cheap mortgage rates that have ignited a housing boom. New single-family homes sold at an annual rate of 828,000 in March, down from 872,000 in February, but the uptrend remains in place (chart). Existing homes sold at a record 4.89 million pace in March and strong home buying has spilled over into sales of furniture, electronics, and appliances.

El Niño also helped the housing industry, since builders could start projects at a time when the ground is usually too frozen to dig. Of course, since so much construction was pulled forward into the winter, starts are likely to dip in the months to come. The big danger is that a decline in wealth and a rise in mortgage rates could intensify any drop-off in housing.

THE HOPE OF MOST ECONOMISTS and Fed policymakers was that Asian weakness would slow the economy. However, some of the Asian effects have been favorable, such as lower interest rates, cheaper commodities—especially oil—and lower inflation, which has boosted consumers' buying power.

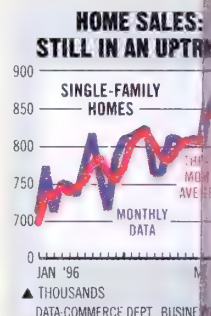
The crisis has clearly hit the factory sector through exports. Durable-goods orders have weakened, partly because of swings in aircraft bookings. But even ex-

cluding planes, orders have flattened out. Overall, sales rose 0.4% in March after falling 0.8% in February.

In addition, the backlog of unfilled orders has risen sharply in recent months, suggesting less product coming months. But manufacturing is only about 20% of the economy, and the Fed would like to see evidence of broader braking. If the economy doesn't slow enough to loosen labor markets, the Fed very likely will feel compelled to hike interest rates.

Such a move would hammer stock valuations. Right now, the average price-earnings ratio of issues in the Standard & Poor's 500-stock index is 23, based on First Call Inc.'s '98 earnings projection. That's high by historical standards, and the projected 6.7% rise in earnings from 1997 may well be too optimistic. Also, stocks are increasingly pricey relative to bonds. That p-e ratio implies an earnings yield of 4.4%, which already pales in comparison with the 5.8% competing yield on 10-year Treasury bonds.

Measured either way, stocks are in nosebleed territory and exposed to profit and rate shocks. That makes the Fed's job harder because policymakers think that the higher the stocks are, the harder they'll fall.



ARGENTINA

THIS PARTY'S NOT OVER YET

Argentina's industrial sector enjoyed another strong quarter. But global bankers are trying to pressure the government of President Carlos S. Menem into slowing the economy.

Industrial production was up 9.7% in March from a year before, led by gains in autos and construction materials. The building sector is being pumped up by public spending, especially Menem's ambitious road program. The rise in industrial activity is increasing employment in a country where the jobless rate stood at a high of 13.7% at the end of 1997. Unemployment is sure to be a key issue of the 1999 Presidential election. For now, solid industrial activity

is offsetting the drags from falling oil prices and agricultural damage from flooding. Private economists forecast real gross domestic product growth to slow to 4% to 6% in 1998, from 1997's robust 8.4%.

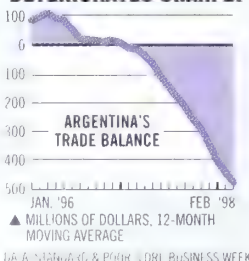
The strong economy, coupled with the slowdown in Brazil, Argentina's main trading partner, is worsening the trade deficit. In February, the gap widened to \$544 million, triple its level in February, 1997. Exports fell 9% from a year ago as energy shipments—13% of all exports—plunged 23%. But imports rose 11%, led by a 34% surge in capital goods. The International Monetary Fund has warned that the deficit could total as much as

\$8 billion this year, from \$2.3 billion in 1997. The IMF has said the current account deficit could hit 4.75% of GDP, much higher than the target of 3.8% set by the IMF as part of its \$2.8 billion loan agreement with Argentina.

The IMF also has recommended cutting some public spending, raising bank-reserve requirements, and changing some tax laws in order to hold down the government deficit. In addition, the IMF says the proposed labor reforms are too weak.

Menem, however, isn't keen on slowing the economy this close to an election. And even though the constitution must still be altered to pave the way for his reelection bid, the upcoming vote probably means that politics, not fiscal prudence, will guide economic policy in the coming year.

THE TRADE PICTURE DETERIORATES SHARPLY





Two for the road.

Introducing the Intel® Pentium® II processor for mobile PCs.



The Pentium® II processor is now available in mobile PCs. Which means you can have the best of both worlds: the performance of a desktop PC and the ability to take it anywhere. So go test drive a **pentium® II** new mobile PC with an Intel® Pentium II processor and pull into the fast lane. For more information, visit our Web site. www.intel.com/mobile/PentiumII

intel

The Computer Inside.™

THE MARKETS

SKITTISH BULLS

They aren't turning tail yet. But they sure are edgy about rates

For months, market bears have been waiting for the sign that the end to this endless bull market was in sight. On Apr. 27, they thought they saw it: reports that the Federal Reserve was leaning toward raising interest rates.

The market was already wobbling the week before—the Dow Jones industrial average dropped more than 120 points from Apr. 21 to Apr. 24. But when the Dow tumbled as much as 223 points on Apr. 27, so too did some expectations that a 10,000 Dow was close at hand.

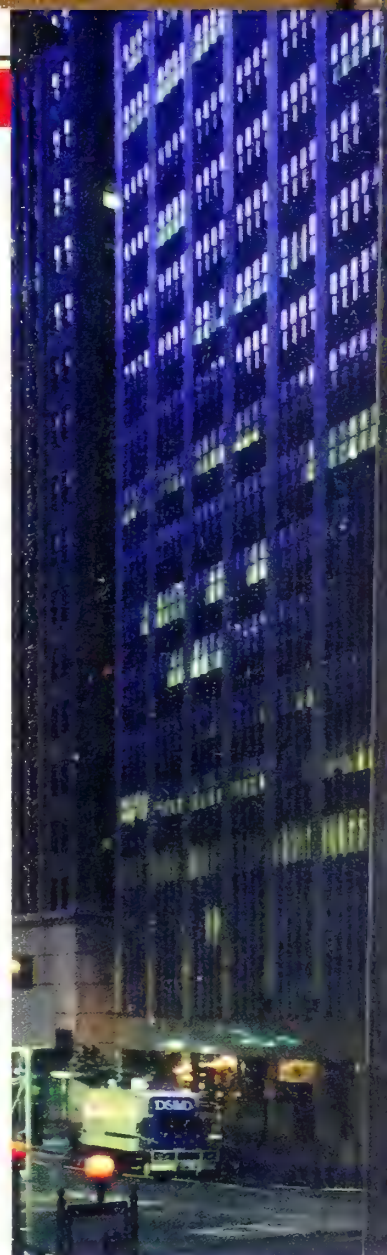
Talk of how all of the new money pouring into the market would propel it to new highs gave way to ominous mutterings about rising interest rates and slowing earnings growth. With Treasury bond yields rising in anticipation of a

Fed move, investors saw that the profit predictions that had powered the price-earnings multiple on the Standard & Poor's 500-stock index to 23, based on estimated '98 earnings, were not merely optimistic, but perhaps a bit rash. "The current levels of stock prices, earnings, and bond yields just don't make sense," says Douglas R. Cliggott, J.P. Morgan & Co.'s chief U.S. equity strategist.

Clearly, that's part of the debate at the Fed (page 31). Some Fed officials point to the growing gap between the earnings companies can deliver and the earnings investors expect as a sign of speculative excess. Those inflated stock prices could spur even greater consumer spending and bring on inflation. By the same token, if profits disappoint, they fear a crash that slams the economy.

GREAT BUBBLE? So, where are stocks headed? This is still that same bull market—the one that wolfsbane, garlic, and maybe even a stake in the heart can't seem to discourage. Even with the Dow setting records, investors keep coming: According to the Investment Company Institute, more than \$61 billion has poured into stock mutual funds by the end of March, compared to \$56 billion in the first quarter of 1997.

The April correction already seems to be tapering off—the market closed



up 52.5, at 8951.5, on Apr. 29. And strategists, while not predicting gains for the rest of the year, drop the idea of anything more than a temporary pullback. "It's that the market's gotten ahead of itself rather than 'it—it's all over,'" says Cliggott.

THE MARKET COULD HIT 10,000 BY THE END OF THE YEAR BECAUSE ...

- 1 Goods prices are falling, and overall inflation is under control
- 2 Second-half earnings growth is expected to be healthy
- 3 Despite Asia's continuing financial problems, the impact on the U.S. economy is minimal and will be confined to the first and second quarters
- 4 The Fed is unlikely to raise interest rates when economic data are inconclusive

THE TWO FACES OF THE MARKET

THE MARKET COULD EXPERIENCE AS MUCH AS A 15% CORRECTION BECAUSE ...

- 1 Tight labor markets may spur inflation
- 2 Corporate profits are already losing momentum and will slow even more in the second quarter
- 3 Asia is still sinking, and the full impact on the U.S. economy has not been felt
- 4 Fearing that already rapid consumer spending—accelerated by a rising market—will ignite inflation, the Fed hikes



Sachs & Co. strategist Abby Joseph thinks the current economic and expansion will last till the end of and an improving global economy need profit growth, though she expects U.S. economic activity to moderate. She sees the Dow hitting a modest 10,000 by yearend.

Still, the mood on the Street has cooled. Many strategists are adopting a cautious tone in the near term, holding out hope for another upsurge later this year. The second quarter, they say, will be choppy. Sizable gains may be followed by stagnation, trading within a narrow range for several months at a time.

Some pros, such as Morgan Stanley Witter & Co. global strategist M. Biggs, are fully bearish. He calls it "one of the greatest stock market bubbles of all time." Biggs's scenario: Wage inflation, already in services, will burst the bubble.

Rising wages may force prices higher—igniting rapid inflation—or take down corporate profits as companies try to hold the line on prices while costs soar.

The biggest question overhanging the market remains: When, and by how much, will the Fed raise rates? "Our answer is not soon, and not much," says Cohen. But Barry Hyman, chief market analyst at New York City's Ehrenkrantz King Nussbaum Inc., believes the Fed is handing the markets a warning: "The media and the markets are being told, 'Look, you better start thinking about higher rates because there's no room for flexibility here.'"

That has market strategists focusing more intently on the fundamentals of the domestic economy—the forces that could prompt the threatened hike. "The first quarter is over, and the Asian impact hasn't hit, so now the Fed is looking at unemployment, at capacity utilization, and at jobless claims and seeing

that the economy is even stronger than it was a year ago," says Joseph Battipaglia, Gruntal & Co.'s strategist. "And financial asset values are higher than a year ago." In classic Fed illogic, he says, "they worry about prosperity."

But despite the news that the Fed has shifted its bias toward tightening, a rate hike is not set in stone. Indeed, with no clear signs of rising inflation, the Fed is unlikely to raise rates at its next meeting on May 19. And plenty of strategists still think there won't be a hike before next year.

Indeed, in the wake of the Apr. 27 Fed leak, the market went about doing the Fed's work for it. After rising to 6.07% on Apr. 28, up from 5.95% on Apr. 24, the 30-year Treasury bond is hovering around 6%. "The bond market is acting like a vigilante," says Battipaglia. "Now

THE NYSE:

A choppy second quarter, then another upswing?

they're saying there will be several increases coming." Cliggott calculates that if the long bond stays at 6.07%, earnings growth would have to be 9% to 10% for the market to be at fair value. He predicts earnings growth of 5% for 1998.

In recent years, long-term rates have been the key to the economy, says Peter J. Canelo, U.S. investment strategist at Morgan Stanley Dean Witter. "When variable mortgage rates went up in 1994, it really slowed things down in 1995," he notes. "Two more notches up in rates would get us to 6.25%, which would send mortgage rates up and slow the economy down." That may be all the economy needs, he adds.

The other key factor is earnings growth. While first-quarter profits are coming in better than expected, that's

not saying much. There was an unusually high level of downward revisions to earnings estimates, making some of the on-target and above-expectations reports misleading. First Call Corp. normally expects to see estimates revised downward by 2% to 3%. But while expectations for year-over-year growth in S&P earnings was 10.4% on Jan. 2, analyst estimates now point to a tiny 0.5% gain. Normally, earnings come in with a slight positive bias, which would bring that growth figure to about 3%. "The bulls say we're beating the numbers," says Chuck Hill, First Call's research director. "That's baloney. Beating numbers by 2.7% is business as usual."

Still, the signs of overheating are there for those who seek them. Housing starts, existing-home sales, and mortgage appli-

cations and refinancings are still strong, notes Canelo. He thinks the interest-rate-generated boom of the last year will continue despite higher rates. That, however, could guarantee a rate hike in 1998 if the economy doesn't slow: "The Fed knows it is constrained with domestic and international pressures, but they don't want to feel that these booming markets have been part of the strength of the economy, because people feel richer."

Investors' faith in the bull seems shakable, but it will be tested again as jobs reports and other economic data roll in over the next few weeks. Whether investors will continue to see such wobbles as buying opportunities isn't clear. What is clear: Investors can expect a long, volatile summer.

By Suzanne Woolley in New York

COMMENTARY

By Christopher Farrell

DOES THE DIVIDEND YIELD EVEN MATTER?

The stock market is up by more than 30% over the past year, and a growing number of economists fear that investors are in the grip of a speculative mania. And by one time-honored barometer—dividend yield—they're dead right. The rule of thumb goes like this: When the dividend yield—dividends per share divided by share price—of the Standard & Poor's 500-stock index falls below 3%, it's time to take your money and run. The S&P's dividend yield today? 1.4%.

Time to sell? Not necessarily. The dividend yield has hovered below the historical danger zone for the past six years. And, far from being the result of a mania, the stock market's gains in the 1990s have largely reflected strong profits and a low-inflation economic expansion.

TECH'S TURN. Times change, and the dividend yield is no longer a sound valuation guide. One reason for the shift is the changing composition of the S&P 500. Five years ago, oil producers, auto makers, and other dividend-paying heavyweights vastly outweighed the dividend-barren tech companies in the index. Today, high-tech goliaths like Microsoft Corp. and Intel Corp. play a much larger role. In 1992, the market

capitalization of Exxon Corp. was \$74 billion, vs. \$24 billion for Microsoft. Last year, the market cap of Exxon was about \$170 billion, but Microsoft's was nearly \$200 billion.

Another factor is the near-absence of inflation. The return on any stock is made up of dividend payments and capital appreciation. When inflation is high and rising, investors want as much return as soon as possible, so they look to dividends, says Richard Bernstein, quantitative strategist for Merrill Lynch & Co. But shareholders will wait for prices to rise when a dollar holds its value, he adds.

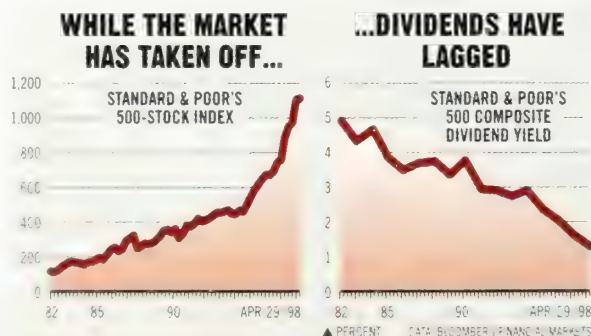
The low dividend yield also reflects a change in how Corporate America now chooses to share good fortune with stockholders. Today, companies are more likely to use retained earnings for periodic stock buybacks, rather than to boost dividends. Buy-

backs can boost share prices and, more importantly, they appeal to shareholders who can take advantage of the low capital-gains rate.

This isn't the first time investors have had to reconsider how to use dividends as a valuation benchmark. Up until the 1950s, common-stock dividend yields were higher than government bond yields. The reason: Since stocks were much riskier than bonds, they had to pay a yield premium. But four decades ago, the interest rate on government bonds rose above the yield on common stocks. And it has stayed there ever since. What happened? The economy had become more stable, and owning stocks a lot less risky, says Peter Bernstein, a New York-based economic consultant to institutional investors.

The market is unlikely to continue on its meteoric course toward Dow 10,000. It may even correct somewhat, but investors may flee to Treasury bonds, whose yields are currently four percentage points above dividend yields. But in no way is the market as insanely overvalued as a cursory look at the dividend yield would suggest.

Farrell writes on economics and finance.



By Dean Foust

IF THE FED IS BLUFFING, IT'S A WILY MOVE

Just last December, Federal Reserve Chairman Alan Greenspan was finally feeling comfortable about the stock market because he thought stock valuations were no longer dangerously out of whack with earnings potential. But he had a new worry: that Asia's economic crisis would hit the U.S. economy hard. That prompted the Fed, which had been leaning toward a rate hike, to take a neutral stance about its next move.

But this spring, Greenspan's concerns have flip-flopped. He's less anxious about Asia, which had surprisingly little impact on the robust U.S. economy. Instead, reining in the days of irrational exuberance, he's fretting about the torrid run-up in stock prices could threaten the economy. That change of heart was confirmed on Apr. 27 when he leaked that the Fed had shifted back to a "bias" toward raising rates.

Even so, odds are Fed policymakers won't deliver on the hike anytime

—barring unexpected economic news showing inflation about to shoot. In fact, despite market jitters, long-bond yields over 6%, the chances of rates going up anytime remain low.

PLANTING A SEED. The news that the Federal Open Market Committee voted on Mar. 31 to shift policy—a leak from the secretive Fed—may have a serendipitous effect for Greenspan. It took some of the froth off Wall Street—if only momentarily. The Dow dove on Apr. 27, but recovered to 8951 by Apr. 28. Until, the Fed has planted a new thought in the minds of investors: A speculative frenzy can be quickly ended at any time. And the policy change itself wasn't

directed at Wall Street speculators. By agreeing to cock the Fed's gun for a future rate hike, Greenspan was seeking to appease Fed hawks who have been clamoring—ever more vociferously—for a rate hike. That's not to say Greenspan intends to follow through and boost the overnight federal-funds rate, which



HIKE AHEAD?

Barring unexpected news on inflation, odds are that Greenspan's Fed won't raise interest rates anytime soon

he has kept at 5.5% for more than a year. "With no inflation on the horizon, you can't justify a rate hike," says an ex-Fed official. "So he has given the hawks what they want and cooled the market."

What has the hawks flapping are a recent surge in the money supply, widespread labor shortages, rising wages, and no sign of slowing economic growth. All these trends, they believe, will reignite inflation within a year unless the Fed acts now. In the past, such pressure would have prompted Greenspan to fire a preemptive strike. In fact, he acceded to a quarter-point hike in March, 1997, when such pressure was less intense.

This time, Greenspan seems loath to act early. Why? Despite all the rising statistics—stock valuations, real estate prices, consumer confidence, consumer spending—the one measure that really matters is down. Inflation, as measured by the consumer price index, rose only 1.4% from March '97 to March '98, after rising close to 3% in the previous 12 months. For the rest of 1998, falling oil and import

prices will likely offset rising wages. And while Fed officials used to believe that economic expansions ended with a sharp price surge, Greenspan now says a new inflationary buildup would be modest and "readily reversible."

SUMMER FALL? The Fed chief is certainly mindful of the steep political price he would pay for boosting rates now. The Fed would be publicly flogged by Congress for an increase in an election year—and at a time when the average worker is finally getting ahead of inflation after decades of falling behind. On Apr. 27, the Commerce Dept. said that inflation-adjusted per-capita income rose 2.5% last year, following a 1.6% gain in 1996. "Greenspan knows that if he raises

rates now and inflation stays down, it looks like an attack on real wage gains," says James E. Annable Jr., chief economist for First Chicago NBD. Adds Annable: "The Fed has got to wait for inflation to show through to retain any credibility with Congress."

That message might help Greenspan fend off hawks such as Fed Governor Laurence H. Meyer, who fears the economy has "moved beyond the point of sustainable capacity." The hawks don't fully buy Greenspan's argument that the economy's growth potential is higher now because a significant boost in the long-term productivity trend is keeping inflation in check.

The debate within the Fed may become moot if the economy slows down this summer, as many still expect. Indeed, there are already signs of braking: Job creation has slowed, and retail sales turned down in March, as did red-hot new-home sales. If the stock market cools off as well, Greenspan and the inflation hawks can relax.

Foust follows the Fed for BUSINESS WEEK.

TRANSPORTATION

WHERE ARE ALL THOSE AIRLINE TIE-UPS HEADED?

That's what regulators want to know

Given the cut-throat nature of the U.S. airline business, it's no surprise that the relative calm of recent years is ending. But few would have predicted that the next twist in the high-stakes game would be huge alliances among what are already the nation's top carriers.

The proposed agreements—between Northwest and Continental, American and US Airways, United and Delta—have already set off alarm bells among regulators, consumers, and labor groups. The major airlines “obviously will have to convince us that the consumer is not worse off,” says one Justice Dept. official. And, concludes one major airline executive, at least some of these deals will turn out to be trial marriages. “There will ultimately be full-fledged financial consolidation,” he predicts.

But even the airlines are divided on how welcome this new development is. An American Airlines Inc. spokesman says the marketing pact announced with US Airways Group Inc. on Apr. 23 is simply “in response to what's going on in

the marketplace,” not a sign of the line's support for these domestic mergers. With one of the strongest networks, American has less need ally than smaller rivals.

LESS RISK. But like it or not, every carrier is determined not to be left these “virtual mergers.” The aim is to create domestic and international networks that attract more customers, especially lucrative business travelers. Indeed, the North-

Continental deal that ed this mating dance driven largely by the tion that the No.

No. 5 carriers need larger global presence to pete for business flyers. nental gets Northwest A. Inc.'s strength in Asia, while west gains Continental's American network. Unlike other alliances, their d-

volves cross-ownership. “It creates a national s- ternational player where wasn't a fourth,” crow-

Continental President

ry D. Brenneman

Alliances app- less risky than ers. For one

the airlines avoid the tur- melding workers and fleets- reaping the gains. United, has links with Lufthansa, s- others, figures it derives 8% pretax income, about \$1- lion a year, from alliance

But even these pseudo- riages—in which carrier-

bine frequent-flier pr- and sell seats on one-

er's flights—face tur-

The two announce-

and the Delta/Unit-

which is still in negi-

would consolidate 5-

domestic traffic in-

camp. Both the

and Transportation

are scrutinizing th-

ings. “If alliance-

uniquely pro-come-

and would result in-

lower fares, the

wouldn't be trippi-

each other to part-

says Samuel C. But-

PaineWebber Inc.

Justice is already

tigating allegati-

predatory behavi-

the majors and Tr-

tion has proposed



THE ALLIANCE TANGO

COMPANIES/COMBINED
U.S. MARKET SHARE

OTHER PARTNERS
INCLUDE

**AMERICAN-
US AIRWAYS**

25%

AMERICAN: Qantas, Canadian, Singapore, LOT Polish, Gulf Air, TAM, China Airlines (Taiwan), Philippine. Proposed deals with British Airways, Japan Airlines, LanChile, Aerolineas Argentinas, Iberia, Asiana, China Eastern, El Al. Domestic marketing agreements with Reno Air, Midway, and Hawaiian. US AIRWAYS: Deutsche BA

**CONTINENTAL-
NORTHWEST**

16.6%

CONTINENTAL: Virgin Atlantic, Aulalia, CSA Czech, Air France, China Airlines, EVA (Taiwan). Pending deals with ACES of Columbia, VASP (Brazil). Domestic: America West. NORTHWEST: Alaska Airlines, America West, KLM, Business Express

DELTA-UNITED

34%

DELTA: SwissAir, Sabena, Austrian, Finnair, Air France, Korean Air. Pending deal with China Southern. UNITED: Lufthansa, Air Canada, SAS, Thai International, Varig, AeroMexico, ANA

help new entrants compete. "If the government approves these alliances, it to come up with solutions to level the playing field," says Edward P. Faber, executive director of the Air Carriers Assn., which represents startups.

Labor may be another stumbling block. Pilot unions at most major airlines have veto power over domestic cost-sharing, or selling of seats on another carrier's flights. Pilots fear the deal will limit a carrier's growth—and pilots' earning potential. Meanwhile, airline labor leaders are leery that deals could lead to lowest-common-denominator contracts. "You've certainly set yourself up to be whipsawed, one labor contract another," says Allied Pilots Assn. president Richard T. LaVoy at American Delta Air Lines Inc.'s pilots halted membership talks with United Airlines on Apr. 24 until Delta CEO Leo F. Ryan assured them that their demand for a board seat—as a condition of their agreement—would be considered. The United talks have since resumed.

RECORD. Business travelers are also already irate over soaring fares, and believe the potential advantages of combined frequent-flyer programs and reduced schedules will be more than offset by greater control of capacity and higher fares. "We have evidence now that the airlines are staying out of each other's way. This is going to carve the market further," warns Kevin P. Mitchell, chairman of the Business Travel Coalition, which lobbies for corporate travelers. The record of some international alliances bolsters consumer concerns. Take the Brussels-New York route. Three years ago, three airlines were competing for corporate discounts of 20% to fill seats, says one corporate travel buyer. But when Delta and United gained antitrust immunity for their alliance in 1996—and the ability to coordinate marketing and fares, the U.S. alliances won't have—United dropped out of the market. Corporate discounts were cut nearly in half. The average fares paid between New York and Brussels have risen 23%, a 18% jump in all international fares, says Topaz International Ltd., an auditing firm in Portland, Ore.

Not to worry, alliance supporters say. That the antitrust immunity—once it takes full mergers—they will have an incentive to continue competing. They believe midsize cities could even receive service if the alliances allow them to redeploy aircraft from big markets. But the airlines face a uphill climb in proving that these deals offer more benefits than risks.

By Wendy Zellner in Dallas, with Harris in Atlanta and bureau



BOOSTING MARY KAY: Since Tiananmen Square, rallies make authorities nervous

with the latest in Shenzhen.

The ban could also spark a U.S.-China trade dispute on the eve of President Clinton's state visit in June. "It is a serious matter when a government simply bans the operation of legitimate invested companies," warned U.S. Trade Representative Charlene Barshefsky at an Apr. 24 press conference in Beijing. "I hope that the Chinese come around quickly to that view."

MOONLIGHTING. Direct selling took off rapidly when Beijing opened the market in 1990. Estimates of total revenues from direct selling in China range up to \$2 billion annually. And the China trade has become a

handy growth vehicle for U.S. companies: Amway's China revenues reached \$178 million last year, and Mary Kay, a relative newcomer, hit \$25 million there.

But as American direct sellers have flourished, so have many local outfits and companies from Taiwan and Hong Kong that engage in questionable practices, including running pyramid and Ponzi schemes and stealing the savings of Chinese hoping to get rich on direct sales. The authorities are also irate about the many teachers and civil servants who have taken up direct selling to supplement their incomes. And the massive sales rallies that direct sellers use to motivate the troops "ring bells of Tiananmen Square and make [the government] nervous about the possible political aspirations of direct sellers," says a Tupperware spokesperson.

The shaken American companies are pinning their hopes on a promised meeting with Wu Yi, the state counselor responsible for trade and foreign investment. Richard N. Holwill, Amway's director for international affairs, says U.S. controversy about Amway's multi-level selling methods are not bothering the Chinese. "We have been told that they have no problems with Amway," he says. For its part, Avon plans to argue that its business is economically beneficial for China and its people and that it has a long history of ethical business practices.

They are certain to get help from the Administration. But they may not need to press too hard: With 20 million Chinese on their side, the ban on direct selling will be a hard sell indeed.

By Dexter Roberts in Urumqi, China, with Kathleen Kerwin in Detroit and bureau reports

TRADE

ULTIMATUM FOR THE AVON LADY

Beijing's ban on direct selling may become a big trade issue

For centuries, China's far western Xinjiang region has been a key stop in East-West trade. You can still see mosques, camel caravans, oases—and, lately, Avon ladies. Avon dealers have helped make Urumqi, Xinjiang's capital, Avon's fastest-growing market in China.

The Chinese are trying to change all that, however. On Apr. 22, the State Council ordered all direct-sales operations to cease immediately. Alarmed by a rise in pyramid schemes by some direct sellers and uneasy about the big sales meetings that direct sellers hold, Beijing gave all companies that hold direct-selling licenses until Oct. 31 to convert to retail outlets or shut down altogether. The move threatens Avon's China sales, now about \$75 million a year, and puts Avon, Amway, and Mary Kay's combined China investment of roughly \$180 million at risk. It also creates problems for Sara Lee Corp. and Tupperware Corp., which recently launched direct-sales efforts in China.

But the move may be too late to halt direct selling. An estimated 20 million Chinese are involved in direct sales, with more turning to the business as unemployment rises. Already, attempts to carry out the decree have caused protests in central and south China,

MOVIES

YIKES! MONSTERS, METEORS, AND MANAGEMENT SHAKEUPS

Studios are pruning, and this summer's blockbuster crop is down

In *Deep Impact*, the Paramount disaster epic that will kick off the summer movie season on May 8, a killer meteor lands in the Atlantic. Back in Hollywood, there are even more terrifying forces bearing down: management shake-ups at two major studios and cutbacks nearly everywhere. At Warner Bros. Inc., two executives have been fired, and a raft of films have been "indefinitely" postponed because—horrors—they cost too much. At Universal Pictures, where four execs hit the road, parent Seagram Co. put forth the novel idea that a movie might do better at the box office if it were marketed like, say, a bottle of Chivas. At Sony, Price Waterhouse has spent a year quietly assessing ways it could streamline management.

The result: With the approach of the all-important summer season—which has been a bloodbath in recent years, as big-budget films annihilated one another and crowded out smaller flicks—some un-Hollywood-like moderation appears to be creeping in. Overall, the majors—including MGM/UA—are releasing 40 films this summer, 20% fewer than last year. While the industry is still swinging for the fences with event films such as Sony's *Godzilla* and Walt Disney Co.'s *Armageddon*, fewer movies with \$100 million-plus budgets are going ahead. And, to save money for potential blockbusters, studios are greenlighting fewer moderate budget films, too—those coming in at \$30 million to \$50 million.

These cutbacks could be key as movie-makers struggle to make a profit on a modest 5% growth in box-office receipts. Indeed, if you factor out the megahit *Titanic*, the box-office sales would be flat,



This Summer, Less Is More?

STUDIO	RELEASE		BIG FILM	BIG FILM BUDGET MILLIONS
	1997	1998		
PARAMOUNT	8	4	DEEP IMPACT	\$ 90
SONY*	10	6	GODZILLA	100
UNIVERSAL*	4	4	VIRUS	85
WARNER BROS.*	9	7	LETHAL WEAPON IV	125
WALT DISNEY*	7	6	ARMAGEDDON	120
FOX	6	9	THE X-FILES MOVIE	70
TOTAL	44	36		

*Release number does not include small-budget film companies owned by studios that operate independently.

DATA: EXHIBITOR RELATIONS, COMPANY INFORMATION, AND BW ESTIMATES

despite the higher prices for tickets.

Are studio heads, who last year approved projects that boosted the average cost of making and marketing a movie by 27%, to \$75.6 million, finally drawing the line? "That's giving us a lot more credit for collective thinking

than we deserve," says Joe Roth, chairman at Disney.

Indeed, spending is still rampant in some quarters. Mel Gibson stands to make \$50 million for coming back to *Lethal Weapon IV* this summer. And marketing and production costs of *Armageddon* and *Godzilla* approach \$100 million.

But the first signs of industry

consciousness-raising are taking shape. Warner Bros. is halting production on big-budget films, *Superman Lives* with Nicolas Cage's *Am Legend* with Arnold Schwarzenegger. And at Sony, still smarting despite the money flowing in from Cameron's \$200 million *Titanic*, several departments have been overhauled to cut production costs. Another move: a new central talent-effects unit. "Other than we might have gone with a film like *Superman* that might not have been ready," admits Warner Chairman Bob Daly. "Not this year. Not with the costs of things have gotten up to \$100 million." **RUNAWAYS.** A combination of timing, management shakeups, and just plain luck has also cut down the number of films that will be released this summer. Sony, which branched into new managers two years ago, was able to get on with movies up for this summer but they're banking on the biggies: *Godzilla* and Arnold Schwarzenegger's *The Meltdown*. *Zorro*.

The management shakeups at Universal left it without a big-budget film of its own, though it has a half-interest in DreamWorks' highly anticipated *Small Soldiers*. Universal will distribute a year with such budgetary awesomeness as *Titanic* and so Fox isn't spending more than \$70 million on either of its summer films: *The Matrix* and *Dr. Doolittle*, starring Eddie Murphy.

With fewer special-effects extravaganzas, films such as DreamWorks' *Saving Private Ryan*, and Spielberg-Tom Hanks World War II comedy *6 Days, 7 Nights* should do better at the box office, with what to themselves. Another break: To

IT'S YOUR BOTTOM LINE.

(WE JUST WANT TO GIVE IT A BOOST.)

You've got enough to worry about. And from now on your sales department won't be high on the list. Because now you can reap the benefits of AurumFrontOffice. A single-environment front office suite with powerful sales, configuration and call center applications. A completely integrated Web-based solution. Enabling you to arm your sales force and distribution channels with 100% accurate information at the point of sale. 100% of the time. The result? Sales people sell. Distributors distribute. Products get to market faster. And all of a sudden you're looking at a better bottom line.

We'll take care of it for you. Just as we have for some of the world's leading companies — Hewlett Packard, Lanier, PG&E Energy Services and Met Life, to name a few. Find out how. Visit us at aurum.com and request the Aurum Solutions Guide. It's got in-depth information on how to improve your sales process. For an improved bottom line.

CALL FOR THE AURUM SOLUTIONS GUIDE

1-800-683-8855 EXT. 129



AURUM

A Baan Company

Copyright 1998 Aurum Software, Inc. Aurum and AurumFrontOffice are registered trademarks of the Aurum Corporation. All other trademarks are the property of their respective holders.

News: Analysis & Commentary

be a month between the two major animated films, Warner's *The Quest for Camelot* and Disney's *Mulan*, about a young Chinese girl who goes to war in place of her ailing father.

PASSING FAD? Theater owners, already feeling an earnings pinch, aren't happy about this summer's schedule. Some are praying for another sleeper like last year's *The Full Monty*, a small British

film with big box-office appeal. "You've got to hope that some of the little films out there find a home," says Tony Reed, senior vice-president for film buying at Carmike Theaters.

Will this season's cost-consciousness prove to be another fleeting fad in the film capital? Warner says it's serious about change, and Disney's Roth says the studio will stick with a schedule of 15

to 20 films a year, about half its production in 1996. It's a trend, he says, will catch on elsewhere. "This really is a business with lousy margins, and a lot of folks are starting to wonder just how much of a market there is out there for all of the product that we are making. That's a script that will play on Wall Street at least."

By Ronald Grover in Los Angeles

MEDIA

CROWDED IN TOON TOWN

Everybody's going into kids' TV—and revenues will show it

The launch was pure Disney. Followed closely by a marching band, Mickey, Minnie, and Goofy traipsed through a Burbank (Calif.) airplane hangar crammed with kids and parents. The Apr. 18 hoopla was to celebrate the start of the Toon Disney cable-TV network. At the stroke of noon, Mickey, dressed for his role in *The Sorcerer's Apprentice*, sent a stream of electronic sparks into the sky.

The allusion to the famous *Fantasia* sequence—in which Mickey unwittingly creates hundreds of brooms—may turn out to be a bit too apt. The number of cable channels chasing kid viewers is multiplying, while TV networks are also working harder to attract little eyeballs. By this summer, both Walt Disney Co. and Fox will expand offerings to kids. On Apr. 28, Nickelodeon and Children's Television Workshop unveiled plans for a new educational channel for kids called NOGGIN, and the four-year-old UPN network will begin airing 12 hours a week of Disney-produced cartoons.

That adds up to a lot of big players chasing the 39 million viewers aged 2 to 11. And it's changing the dynamics of the \$994 million kids' TV market. Ad rates, which posted double-digit increases for years, are likely to fall as advertisers

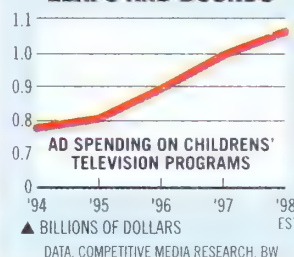
start buying time for the season beginning in August. "There are a lot of players jumping in this pool, and a lot of water is going to splash out," says Jon Mandel, media buyer for such advertisers as Kraft, Mars, and Hasbro. "Rates are going to come down."

Some of that tough talk is doubtless a negotiating posture: For months, advertisers and broadcasters have been locked in talks over the "up-front" market, in which an estimated 60% of ads for the coming season are sold. But the gloomy predictions do suggest a new reality for kids' TV.

PEE WEE RERUNS. Consider the Fox Family Channel, which will launch this August with 11 of its 24 hours dedicated to such children's fare as *Pee Wee's Playhouse* reruns. Advertisers are saying they anticipate audiences of roughly 200,000 kids, about half what Fox has projected, in part because the market just isn't growing. "We're counting on taking share from other people," says Rick Sirvaitis, president of the Fox channel's ad sales unit. The big targets: top-rated Nickelodeon and the Cartoon Network.

In fact, even Nickelodeon is feeling the heat. It currently gets about a third of all spending on advertising aimed at kids, and it snares

GROWING BY LEAPS AND BOUNDS



57% of the kids' audience with such shows as *Rugrats*, *The World of Alex*, and *Kablam!*. But to stay ahead, it's plotting \$350 million into a new animation studio in Burbank and more on-line programming. "The market has been raised to a very high," says Nickelodeon President Scannell.

So why are Disney, Fox, and Nickelodeon trying to vault in? They are reserving shelf space for their bulging libraries of cartoons in anticipation of the new TV era, which will increase the number of channels and add to the choices available. "The bigger companies have programming that they intend to produce," says Charles H. Rivkin, president of Jim Henson Co., which is talking to cable operators about launching a channel with old Muppet fare.

But the crush of new programming may be driving ad rates down. Right now, high audience ratings don't lead to high revenue. Take the Cartoon Network. *The Flintstones*, *Batman*, and *Scooby Doo* are making its ratings soar. But that doesn't impress ad buyers. "These days, we have plenty of product to buy, but not enough to make," he says. "We could take a lot of the fun out of it."

By Ronald Grover in Los Angeles





ne currency.
ne market.
ne global bank

Euro-Ready.

Managing Your Euro Evolution

Introduction of the European single currency will reduce risk and simplify business transactions. But the transition will be a challenge.

Bank of America is ready. Our integrated global banking system and worldwide presence make us one of the only major banks with a proven, superior payments platform already in place. Which means your payments and liquidity management can run smoothly and effectively.

As a global bank, we deliver the cash management, treasury, and capital raising capabilities your business will require through the transition – and beyond.

That's power in motion. That's Bank of America in motion.



© 1998 Bank America Corporation



Bank of America

www.bankamerica.com

power
in motion.™

TAXI

Wouldn't You
Rather Manage
Your PCs
Without Traveling
Across Town?



pentium



*HP Vectra VL with Windows NT starting at \$1,309**

The HP Vectra with Windows NT® Workstation offers a superior desktop management solution by providing remote management, troubleshooting tools and more. Armed with HP TopTools running on Windows NT, your department can instantly track where your company's PCs are, which software is installed and whose machines are in need of immediate attention — whether those PCs are from different suppliers, in separate buildings or in altogether different cities. In addition, the affordable HP Vectra with Windows NT offers reliability, scalability, security and, of course, performance. What else would you expect from the fastest growing¹ PC supplier? Managing your PCs just got easier. So remain seated and visit us at www.hp.com/go/vectra/wnt.



**HEWLETT®
PACKARD**

Expanding Possibilities

SOCIAL ISSUES

MAN AND WOMAN AT HARVARD

The B-school fumbles an embarrassing probe

Harvard business school prides itself on being a place where students use case studies to tackle real-life business problems. But this April, the play-acting became real when six male students were disciplined for offensive behavior toward women in the classroom.

What's striking is not only the behavior—which, as first detailed in *Inc. Online*, included the exchange of sexually offensive and explicit notes and comments—but how HBS handled it. Several students complained to fellow students and faculty during the 1996-97 year, but a formal probe was not launched until 1998, owing in part to lack of clarity in disciplinary procedures. "We could have taken action more quickly," admits Kim B. Clark, dean of the business school. "We clearly did not articulate the standards we expect."

Some students say the behavior is no

surprise. Harvard has long taken heat on women's issues. At HBS, women make up just 24% of the class of 1998 and 28% of the class of 1999, vs. 38% at Columbia Business School and 32% at Northwestern University's Kellogg School of Management. And some say that sexist traditions are

passed on to incoming students at HBS. A male student in the 80-student section where the incidents occurred says the pattern of behavior was set when HBS students from the previous year taught them about traditions such as "top 10" lists and suggestive cheers and notes. Says one full professor: "The problem has been festering for years." Other students say the environment is healthy and students should police themselves.

With sexual harassment such a critical issue in Corporate America, what's most surprising is how little attention the situation got at a school that sees itself as being in the vanguard of management issues. "You're planting a bad



CULTURE WAR

Students blame an ongoing tradition of using derogatory terms to describe women

seed if harassment is being generated," says Lora Hartman, head of DePaul University's Institute for Business

Professional Ethics. "MBAs aren't from stepping out of the classroom to the boardroom."

Some good may come from airing Harvard's dirty laundry. Incoming students now must attend a class to discuss sexual harassment. HBS has also worked its disciplinary process, with both student officers and faculty getting training in gender-related issues. "Those things will not happen in HBS of the future," says Andrew Nunemaker, president of HBS's student association. What is sad is that it happened at all.

By Jennifer Reingold in Boston
Nadav Enbar in New York

CITIES

HOORAY FOR HARLEM

Will a megamall reverse urban decay in Upper Manhattan?

Just off 125th Street in Harlem, the Soul Saving Station church offers spiritual renewal. Across the street, a block-long lot, nearly vacant, promises salvation of the economic variety.

Within weeks, workers will break ground here for Harlem USA, a \$65 million, glass-walled retail and entertainment center. Two years after announcing their first tenant—a Disney Store—developers have leases from Gap, Old Navy, Cineplex Odeon, and others to nearly fill the place, enough to win construction financing, set to close May 1, from a group led by Chase Manhattan Bank.

The deal "has given us license to dream," says Deborah C. Wright, president of the Upper Manhattan Empowerment Zone, a federal-state-city initiative that will kick in \$11 million in loans. In-

deed, before Harlem USA opens in late 1999, construction should begin a block away on another retail complex planned by Forest City Ratner and a development arm of the powerful Abyssinian Baptist Church. Bulldozers already are leveling ground at 125th Street's east end for a long-delayed Pathmark supermarket. Opposite that, Jerry I. Speyer of Tishman-Speyer Properties has proposed a 400,000-square-foot mall.

The comeback on Harlem's main drag



WRIGHT: Now, Harlem has "license to dream"

is a critical test for inner-city communities nationally, and many experts are optimistic. "This is going to usher in a new era of urban retailing," says Anne S. Hooten, director of research at the Initiative for Competitive Inner City, who sees millions of dollars of pent-up construction spending in such communities.

Even given Upper Manhattan's explosion in disposable income, though, it's getting a rich dose of government incentives and low-interest loans to spark development. The prospective payoff is a "pebble-in-the-pond phenomenon," says Housing and Urban Development Secretary Andrew Cuomo. Retailers create jobs and lure middle-class residents, gradually improving the tax base and economic stability. Yet many wonder whether 125th Street's renaissance affects more than a few blocks north or south. For now, Harlem suffers from 19% unemployment and a 35% poverty rate. Vitality will require better schools and a more sustained strength in New York's economy. Harlem is not yet healthy.

By Keith H. Hammel

New York

EDITED BY PAT WECHSLER

SUITE OF SUITS MICROSOFT

DO YOU WANT TO GO to court? In early May, Justice Dept. and about a dozen states are expected to file antitrust suits against Microsoft, say sources close to the Justice Dept. and the states would file separate suits, but all will be based on a common thread: Microsoft's mapped out in the federal court. The suits are like a series of bans that will keep Microsoft from requiring PC makers to install its "desktop" as the first screen seen when you turn on their machines. The suits also may require Microsoft to offer a browser-free version of the to-be-released Windows 98 and seek some relief on the changes Microsoft can make to Sun Mi-

crosoft's Java software, a potential threat to Windows.

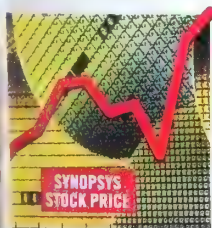
BOEING'S 717: READY TO TAKE OFF

NOT TO WORRY. BOEING PRESIDENT Harry Stonecipher has reassured aircraft leasing companies and airlines, which had been holding off orders for the 100-seat 717 passenger jet. They wanted to be sure that the company, which has had production problems with bigger planes, will actually build 717s, which have lower profit margins. On Apr. 21, Stonecipher announced plans to build up to ten 717s a month at a former McDonnell Douglas facility in Long Beach, Calif. So far, the jet-maker only has orders for 50 planes, but insiders say more announcements are imminent.

LOSING BELL

SIGNER STOCK

days, the arcana of chip-software doesn't get much attention. But on Apr. 28, Synopsys squeaked past earnings estimates. Investors took notice. Synopsys stock jumped to 41. Faster revenue and bigger margins made it an attractive investment opportunity," says Goldmans analyst Laura Lararo. The \$500 million in Synopsys' fortunes may be a harbinger of brighter days for chip-software. Industry growth may reach 8% this year to 1999, says Dataquest.



'98 APR. 29
BLOOMBERG FINANCIAL MARKETS

IS CENDANT ON THE ASCENDANT?

IN MID-APRIL, CENDANT CEO Henry Silverman was zapped by bad news. Allegations of accounting irregularities, restated earnings, and a management shakeup sent Cendant's stock down 47%. Now Silverman may be starting his comeback. On Apr. 28, Cendant trading was the heaviest on the Big Board, and the price rose 9%, to 24. The reason: Investors like the news that Cendant, which runs a direct marketing and franchise operation, closed its \$1.3 billion deal for a British parking lot company. Silverman also said first-quarter earnings, to be reported May 5, should meet Wall Street's expectations of 25¢ a share.

SMOOTH SAILING FOR VIACOM

HAS VIACOM'S SHIP FINALLY come in? On Apr. 29, it posted gains in first-quarter cash flow, revenue, and pretax earnings,

HEADLINER: BENNETT LEBOW

CIGARETTE (INDUSTRY) BREAK

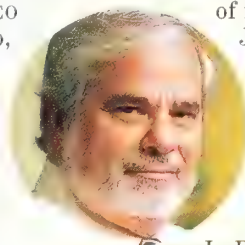
Leave it to maverick Bennett LeBow to blow smoke in the faces of other tobacco execs. The chairman and CEO of Brooke Group, parent of Liggett Group, has pledged that the tiny cigarette maker will cooperate with the Justice Dept.'s criminal probe of the industry. The pact with Justice provides no immunity.

The Liggett pact guarantees access to company records and employees. In its probe, Justice is looking into whether tobacco companies broke the law—either by perjuring themselves before Con-

gress regarding the health consequences of smoking cigarettes or by illegally manipulating the level of nicotine. Says a Justice official: "This sends a message to other tobacco companies that we are taking it seriously."

In March, 1996, LeBow broke ranks with the industry by agreeing to settle some civil suits and cooperate with state attorneys general pursuing damage claims. Liggett has since reached settlements with 41 states, and LeBow himself has testified about the addictiveness of nicotine.

By Gail DeGeorge



surpassing Wall Street's expectations. A big boost came from *Titanic*, a joint production of Viacom's Paramount movie studio and Twentieth Century Fox. Even better, the earnings report indicated a turnaround at Blockbuster. In the quarter, the movie rental unit's same-store revenue was up 10%, its cash flow, up 6%, and total sales rose by 13%, to \$930 million. The chain is benefiting from new distribution deals with studios that reduce the cost of videos and stock Blockbuster stores with more copies of current releases.

SOCIAL SECURITY LOOKS MORE SECURE

THE STRONG ECONOMY IS GIVING Social Security more breathing room. On Apr. 28, the national retirement system's trustees said that the fund would remain in the black until 2032—three years later than the actuaries' pre-

vious predictions. President Clinton, who cautioned that he still wants budget surpluses applied to a Social Security fix, hailed the report. The news wasn't as well-received over at the Cato Institute, a libertarian think tank. Hours before the figures were unveiled, Cato had issued a release that predicted: "It is likely that this report will indicate that Social Security is going broke more quickly." A red-faced flack at the think tank says the forecast was based on a rumor—one thing from which Washington never suffers a deficit.

ET CETERA...

- CompUSA earnings tumbled 22% in the wake of falling PC prices.
- AOL is going to invest \$14 million into Boston-based Family Education Network.
- Merrill Lynch says it's looking to buy a \$5 billion European private bank.



Sure, FedEx and UPS may promise you the world.
But not for seven bucks.



What's Your Global Priority? <---

Give us a few more days and Global Priority Mail® can save you up to 70% over FedEx and UPS on deliveries to 33 countries.
Great news for everyone. Well, almost everyone. To find out more, call or visit us on the web.

Call 1-800-THE-USPS ext. 1349 for a starter kit.



We deliver.

www.usps.com



KOREA PROTEST

Joblessness is at a 12-year high, and the *chaebol* haven't even started major layoffs

ing mess fast, allow widespread corporate restructuring, and turn crisis into opportunity.

Instead, after the relative calm of the last three months, the full force of the economic storm is starting to be felt. Consumption is plummeting. As countries compete with each other to ship goods to the west, export prices are dropping. Unemployment is rising. No one is sure which bank will next

need a bailout, whether in Japan, Korea, Indonesia, or Malaysia. Businesses and banks have a new fear, too: that the U.S. will hike interest rates. An increase would undercut fragile stock markets and make it more difficult for stretched borrowers to repay loans.

DISAPPEARING DREAMS. It's hard to find enough good news to restore confidence. Even China, so far largely unscathed by the crisis, is showing weakness, with first-quarter gross domestic product growth at a slower-than-expected 7.2% annual rate. That's down from 8.2% a year earlier—and China needs 8% growth to keep unemployment from rising. Hit by a cyclical downturn as well as the fallout from a massive restructuring of state enterprises, China's economy is likely to decelerate further. "In terms of growth, it's hard to be optimistic," says Morgan Stanley Hong Kong-based economist Andy Xie. A slowdown in China will affect Hong Kong, which is already dealing with an evaporation of retail sales and a soft property sector.

In Korea, President Kim Dae Jung's grand dreams of dramatic reform are disappearing. Korea's industrial production dropped 10% in March, its third consecutive monthly drop, and wholesale and retail sales fell by the same amount. Big gains in export volumes were offset by a 30% erosion in export prices during the first three months of the year. The 6.5% unemployment rate is at a 12-year high. And that's before the *chaebol*, the sprawling business groups that dominate the economy, have

"S JUST GETTING WORSE IN ASIA

As the bad news flows in, a turnaround seems further off

... pessimists are wondering if they got it wrong on Asia. Maybe they weren't gloomy enough. Just in the last week of April, they had to deal with one bad piece of news after another. Korea's labor life intensified. Indonesian stupefied up their rioting, and signs of new problems for the International Monetary Fund bailout. New suggestions China's economy was slowing. Japan's latest package—almost better ask. It just the Nikkei further. If Asia deteriorating, states will have up their pre—that the rebound in a two. A recov-

ery may instead be three to five years away. That bodes ill for the markets, which are swooning again (table). Worse, it bodes ill for the millions of Asians who may join the ranks of the jobless.

Earlier this year, hope was rising that the worst was over. Optimists pointed to the positive steps being taken. Thailand was restructuring its troubled financial sector. China's leaders had vowed not to devalue the national currency. Korea's new government was pushing through laws to open up the closed industrial system. Even Indonesia's Suharto seemed ready to take his medicine by signing on to a new IMF program. A scenario was emerging in which the region would tackle its bank-

ASIA'S ROCKY MARKETS

CHANGE IN STOCK MARKET INDEXES
3/2/98-4/29/98

KOREA COMPOSITE	-27.3%
KUALA LUMPUR COMPOSITE	-16.5
NIKKEI 225	-10.8
HANG SENG	-7.5
JAKARTA COMPOSITE	-6.2

DATA: BLOOMBERG FINANCIAL MARKETS

even started major layoffs. "We've just had layoffs at small- and medium-size companies," says Choi Young Il, a researcher at the Korea Labor Institute. The currency has strengthened recently, but watch out: The won is trading at a 13% discount to its current rate in the one-year forward market.

Korea's problems pale next to those of Indonesia, where a third agreement with the International Monetary Fund is in danger of coming unstuck, less than a month after it was signed by Trade Minister Mohamad "Bob" Hasan, a confidante of President Suharto. The IMF contends that pivotal clove and palm oil monopolies, which Hasan pledged to dismantle, continue in slightly disguised forms. The standoff means that the IMF may not disburse any more funds from its promised \$43 billion rescue package. With Hasan insisting on Apr. 28 that Indonesia would appeal a World Trade Organization ruling against its Timor car, a political project run by Suharto's son Hutomo Mandala Putra, tensions between Indonesia, its trading partners, and the IMF have risen further.

Meanwhile, demonstrations occur daily in Indonesian cities. Protesters are now using Molotov cocktails. They display a boldness that would have been unthinkable even six months ago, burning effigies of the once revered Suharto and calling for his resignation.

FLEEING JAPAN. No one is rioting in Japan, and to outward appearances the island nation remains prosperous. But Japan is now officially in recession after a second consecutive quarter of economic contraction, and its weakness is a far greater threat to the global economy. Japan's jobless rate took one of its biggest-ever jumps in March, to a record 3.9% from 3.6% in February, and shows no signs of peaking. Bankruptcies are also at all-time highs.

Retail sales fell 14.5% in March, the sharpest slump on record. Hitachi Ltd. just took a loss of nearly \$1 billion to restructure its chip business and finance its underfunded pension plan. Some analysts are looking for the yen to drop to 140 to 150 to the dollar by midyear as capital flees Japan in search of higher returns abroad. Giles Ockenden, a Tokyo-based equity strategist for Jardine Fleming Securities Ltd., sees the Nikkei declining to 12,000, from about 15,400 now. Ten months after the crisis started, it seems that Asia is entering a second stage of turbulence.

By Mark L. Clifford, with Joyce Barnathan in Hong Kong, Michael Shari in Jakarta, and Moon Ihwan in Seoul

INDONESIA

CARMAKERS ARE HITTING THE WALL

Only a lucky few may be left standing when the crisis is over



It's been a lifelong dream, and M. Sinivasan is determined not to let Indonesia's deepening economic crisis shatter it. Ever since he started making fabrics with a single handloom in a storefront 35 years ago, Sinivasan has methodically built his Texmaco Group into an industrial power that makes everything from machine tools to auto parts. The crowning moment comes in September, when Texmaco plans to roll out its first truck, the 7.5-ton Perkasa. "The best time to hit is when the morale of our competitors is weak," declares operations director H. N. Subba Rao.

Brave talk. But Sinivasan's truck operation will be lucky to survive 1998. Car sales in Indonesia are projected to plummet 75% this year, to just 100,000 units. Even keeping plants running is tough, since auto makers can't get financing to import key parts. Texmaco's plight appears particularly grim: The

STRUGGLING
Teddy Rachmat's Astra is laying off workers. His parent group has to repay \$1.7 billion in offshore debt.

\$2 billion group must repackage and reschedule \$200 million in offshore loans this year, and its main vehicle division, Mitsubishi Motors Corp., is still on a full year of unsold inventory.

A brutal auto shakeout already is under way. Indonesia's No. 1 car assembler, Indomobil, has temporarily shut its Suzuki and Mazda plants as it tries to clear a inventory of 40,000 cars. Even the fortunes of President Suharto's firm are crumbling. Timor Putra Nasional, the "national car" project run by his youngest son, Hutomo Mandala Putra, has been shuttered, leaving 15,000 Kia Sephia stranded on the lot. So, too, has a car venture by son Bambang Trihatmodjo with Hyundai Group, while Suharto's half-brother Probosutedjo has lost his stake in a stalled General Motors Corp. plant.

IMF WOES. Making matters worse is Indonesia's floundering attempt to restructure some \$70 billion in private debt with foreign banks. The IMF fears that a \$43 billion International Monetary Fund rescue will unravel have kept Jakarta from receiving \$3 billion in trade-credit guarantees pledged by Singapore, the U.S., and Japan. Auto makers are bracing for two or three ugly years. "It's as if we've hit a wall," says Teddy Rachmat, president-director of Astra International.

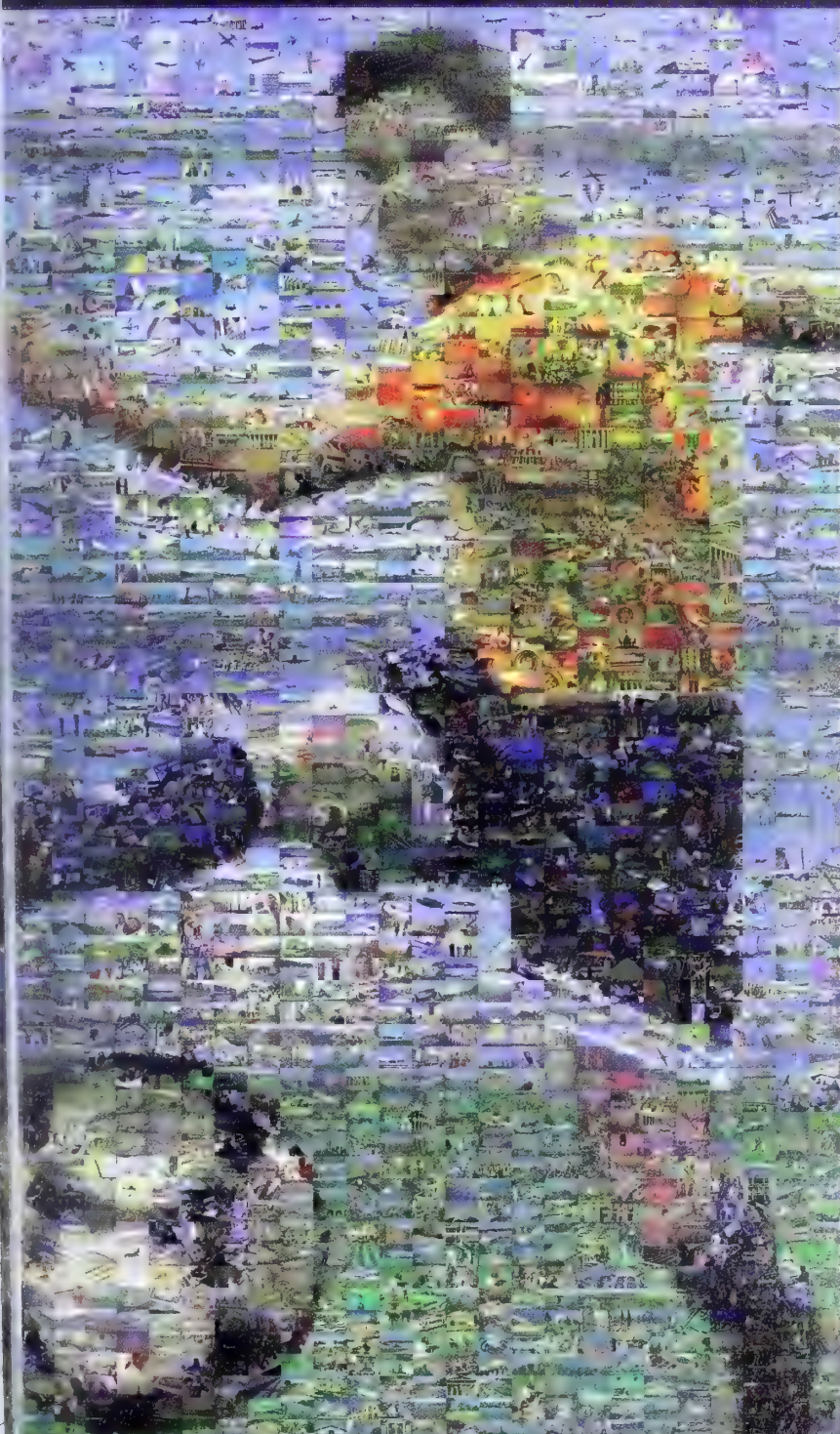
When the economy does prove, Astra expects to be one of the few survivors. As assembler of seven brands, including Toyota and its Kijang minivan, Astra has 55% of Indonesia's car market. So far, it has lost less than 10% of its car workforce. But it sold only 100 Corollas in January and Toyota won't let Astra export. Astra has been closing its Kijang plants for days at a time to cut costs. As car sales are bad news for parents, Astra Group: It must repay 35% of its \$1.7 billion in offshore debt by year-end.

Indonesia once thought '98 would be the year its auto industry would thrive. Instead, it's a nightmare that won't end.

By Michael Shari in Jakarta and Emily Thornton in Tokyo



OUR SOFTWARE IS PULLING TOGETHER THE BIGGEST SINGLE SPORTING EVENT IN HISTORY.



The 1998 World Cup Soccer Tournament is one of the largest media events of all time, with a cumulative television audience of billions. Not to mention 2.5 million spectators, 12,000 volunteers and 12,000 media representatives. They'll all need up-to-the minute information about everything from results to schedules to tickets. Like any business, the World Cup also has accounting, human resources, security and e-commerce needs. And Sybase software is behind it all.

With a Web site (www.france98.com) that may be the most visited in history, capable of handling more than 100 million hits a day, and providing everything from statistics to souvenir sales. So if we can do all that, surely we can keep your company's information systems in top shape.

To learn more about the technology used to make the World Cup a success, and to find out about our World Cup Information Anywhere Enterprise Solutions tour, visit www.sybase.com/events or call 1-800-8-SYBASE (Ref. CPBU).



Information Anywhere

© 1998 Sybase, Inc. All rights reserved. Sybase, the Sybase logo, and Information Anywhere are trademarks of Sybase, Inc. in the United States and other countries. Other names may be trademarks of their respective owners.

www.sybase.com

EUROPE

BUYBACK FEVER HITS EUROPE

Continental companies are snapping up their shares

Shareholder meetings may not be the most exciting rites of spring. But as the meeting season gets under way, European investors can expect a special frisson. In hotel ballrooms across the Continent, CEOs will propose buying back some of their companies' shares, often for the first time ever.

In the U.S., buybacks are taken for granted. In Europe, they represent a milestone on the road to Anglo-Saxon-style capitalism. Buybacks can boost per-share earnings and stock prices, lower capital costs, and signal that managers have investors' interests in mind. Until recently, such considerations didn't loom large in CEOs' minds. Now, as an equity culture takes hold on the Continent, blue-chip companies are lobbying for legislative changes to make buybacks easier. "For Continental Europe, this is quite staggering," says Matthew Norris, a Credit Suisse First Boston analyst in London.

PLENTY OF CASH. Germany is likely to legalize buybacks in July, and France and the Netherlands are expected by yearend to relax tax rules that limit their use. But even before these changes take effect, dozens of companies say they'll ask shareholders to approve buybacks over the next 12 to 18 months. Investment bankers figure the value of buybacks in Britain and the Continent could more than double this year, to \$30 billion, and reach \$50 billion in 1999. The cash inflow could further bolster bourses already energized by next year's scheduled launch of the euro.

European corporations have plenty of dough for buybacks. Downsizings and restructurings have left them with more cash than they've had since 1986. Of 391 companies screened by Morgan Stanley Dean Witter & Co., 27% had a

net cash balance. Sweden's Volvo, for instance, has \$2.2 billion on its balance sheet and is lobbying for changes in tax laws to let it do buybacks in 1999.

Companies used to invest spare cash conservatively or plow it into acquisitions. But many takeovers went sour. Now, competitive pressures and demanding investors are forcing treasurers to pay attention to returns on capital. Low European short-term interest rates, now around 3.5%, make it difficult to earn much on cash. But long-term rates are lower than they've been in a generation, making it cheap for corporations to sell debt. Companies can shrink their cost of capi-

tal by reducing the number of shares outstanding and issuing bonds. My Dietrich Kley, CFO of German chemical maker BASF, notes that "in comparison to DuPont and Dow Chemical, our equity ratio is just too high." So BASF on May 19 will propose buying 10% of its 12 million shares and lowering its equity from 49% of assets to 40%.

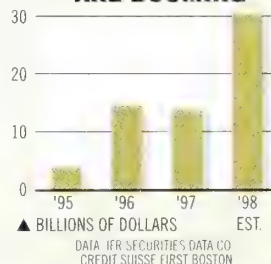
A PATTERN. Two other German chemical makers, Schering and SGL Carbon, also are seeking shareholder approval for buybacks. The overcapitalized European oil industry is another sector ripe for repurchases. In the U.S.,

Exxon Corp. buys 5% of its shares every year, and analysts expect the same pattern to emerge across the Atlantic. France's IFP Aquitaine plans to buy back as much as \$422 million worth of shares in 1998, and Royal Dutch/Shell Group has been lobbying the Dutch government to eliminate its punitive treatment on repurchases. Like the U.S., Britain already taxes shareholder profits from buybacks at favorable capital-gains rates. The measure likely to pass in Germany will exempt buyback proceeds from taxes on shareholdings of more than six months.

Even in Britain, where consolidation, restructuring, and the shareholder culture are all more advanced than on the

Dozens of companies in France, Germany, and the Netherlands have announced repurchase plans

REPURCHASE PLANS ARE BOOMING



Continent, the elimination of withholding taxes on dividends and other distributions in April, 1999, could further enliven the buyback scene. British companies announced or authorized \$8.3 billion worth of repurchases in 1997, and Credit Suisse First Boston expects them to reach \$22 billion in '98. WPP Group Plc, the advertising giant, will repurchase about \$83 million worth of shares this year, and plans to buy an additional 2% to 3% of its equity annually. Wassa, GEC, and Airtours may return cash to shareholders. It's no wonder annual meetings will be so exciting this year.

By Joan Warrick
in Frankfurt



The new Mita Digital Copier/Printer.
(PC is optional.)

As a stand-alone copier it's in a class by itself, making up to 99 copies from a single scan. And as a 600 dpi network printer, it lets you produce sorted, stapled, finished documents right from your desktop. So while the computer may be optional, the Ai3030 is anything but. For more information call 1-800-ABC-MITA or visit www.mita.com.





EUROPE

FINALLY, EUROPEANS ARE STORMING THE NET

The region looks like the next great cyberspace growth market

It's 8:58 p.m., and from Berlin to Munich to tiny Black Forest hamlets, German Internauts are booting up their PCs. Their chat rooms have been practically deserted until now. But after the two minutes it takes to make modem connections, they will be as lively as Bavarian beer halls. "There's a tremendous surge of online activity at nine o'clock in Germany," says Jack Davies, president of AOL International. Why so? It's at 9 p.m. that German phone rates drop by half.

Europeans, long cyberspace holdouts, are rushing onto the Net. It started with companies, from German auto giants to banks in the City of London, that are wiring together customers and suppliers in networks. With appetites whetted, employees are subscribing in increasing numbers to online services, which are hurrying to come up with offerings in European languages. Net subscriptions in Europe are growing at 30% annually, even though high rates push up the average outlay to \$75 a month—triple a U.S. rate that allows unlimited Internet access on free local lines.

Europe, in short, looks like the next

growth market for cyberspace. If deregulation cuts prices, as expected, cheaper phones—or cable or satellite connections that circumvent phones—should draw consumers online. The most dramatic growth is likely to be in company-to-company electronic commerce. Forrester Research, a U.S. technology researcher with a unit in Amsterdam, predicts that online business of \$1.2 billion this year will be worth \$64.4 billion by 2001. "There's incredible pent-up demand," says James Richardson, president of Cisco Systems Inc.'s European operations.

Internet companies are rushing into the fray. Partnered with German media

giant Bertelsmann since 1995, AOL is taking on giants Deutsche Telekom and France Télécom. When AOL purchased CompuServe Inc. in February, it nearly doubled its European base, to 2 million. In the race to win the Continent for the Net, outfits such as Comco and Lucent Technologies are battling France's Alcatel and Germany's Siemens. What's more, Europe's businesses investing some \$125 billion to prepare computers for the euro, they're also putting the businesses online. For Casa Gancia, a 150-year-old Italian winemaker, the Internet replaces annual communications traffic of 35,000 faxes and letters between its offices, warehouses, and agents. It's now extending the network

to 60 countries.

SKIP A STAGE. In both home and business applications, analysts estimate, Europe is about four years behind the U.S. in cyberspace. In Germany, France, and Britain, barely a fifth of homes have Internet, while in the U.S., the figure is nearly half. Internet usage is still just 7% in Germany, 6% in Britain, and 2% in France, compared with 25% in the U.S. But Europe could catch up fast. It may not have to follow the U.S. through a step-by-step evolution of chips and modems, for instance. Instead, Europeans can buy their way into the state of the art. "To some extent, Europeans will move faster because they don't have to go through the pioneer stage," says William A. Etherington, general manager of IBM's Europe division.

In fact, many Europeans may skip the PC stage and jump to the Net through alternative devices. Alcatel wowed the crowd at Germany's Com

Cyber-Europe's Takeoff

USERS

Online subscribers are expected to grow from 7% of Europe's population this year to 13% in 2001. Growth could quicken if telephone deregulation takes hold.

ELECTRONIC COMMERCE

Online business, wholesale and retail, is expected to leap from \$1.2 billion to \$64.4 billion over the next three years.

PROVIDERS

Bertelsmann/AOL has invested \$350 million to take on giants such as Deutsche Telekom and France Télécom.

DATA: FORRESTER RESEARCH; BUSINESS & ECONOMICS

computer show last March with a telephone equipped with a screen and built-in Web-surfing. L. M. Ericsson and Nokia Corp. are promoting their latest cellular phones as Web machines. For many Europeans, though, the most likely path to the Net is the old way. British Telecommunications PLC, which has teamed up with Microsoft Corp.'s WebTV, predicts that TV access to the Internet in Britain will grow from zero now to 3.5 million subscribers in four years. That's twice the number of current Net surfers using PCs. Cable & Wireless Communications PLC has teamed up with U.S.-based Network Computer Inc., an Oracle and Netscape Communications affiliate, for its autumn, 1998, digital TV launch. C&W intends to offer TV-based Internet access within the next 12 months.

WIRE TO WIRE. Even as consumers sort through these choices, businesses are racing ahead. Multinationals have been going online for the past five years. In April, Amazon.com, the online book seller, announced that it would purchase 10 European companies—two in Britain, one in Germany—to build European book and video sales. And to compete in a united Europe, small companies have to catch up. Further, many of them are adopting software systems—including products by Oracle, SAP, and SAP—that virtually thrust them into networks.

One added benefit for businesses: They're the first beneficiaries of tele-reform. Throughout the Continent, competitors are targeting business customers with discount services. Businesses are easier to wire and provide greater traffic than the unwieldy consumer market. "You get to business customers with a much smaller investment," says Aldo Peterson, chief executive at Telepartner, a Danish company that discounts phone services.

One trouble for consumers is that many former monopolies, including Spain's Telefónica, are lowering long-distance fares, they're compensating by raising up local rates. "There has to be a balance," says Luis López von Damm, chief of Telefónica Internacional, the company's European joint venture with WorldCom Inc. In the meantime, prices for the number of Net surfers in some countries.

Europeans have long resisted the Internet as a phenomenon of limited value. As they warm to the Net, they're trying to imprint their culture—as well as their languages—on cyberspace. And in time, maybe they won't have to wait until 9 p.m. to switch on.

Stephen Baker in Paris, with Warner in Frankfurt and Heidi Hey in London

After
we deliver
your Year-2000 solutions
and your Euro solutions...
in record time,

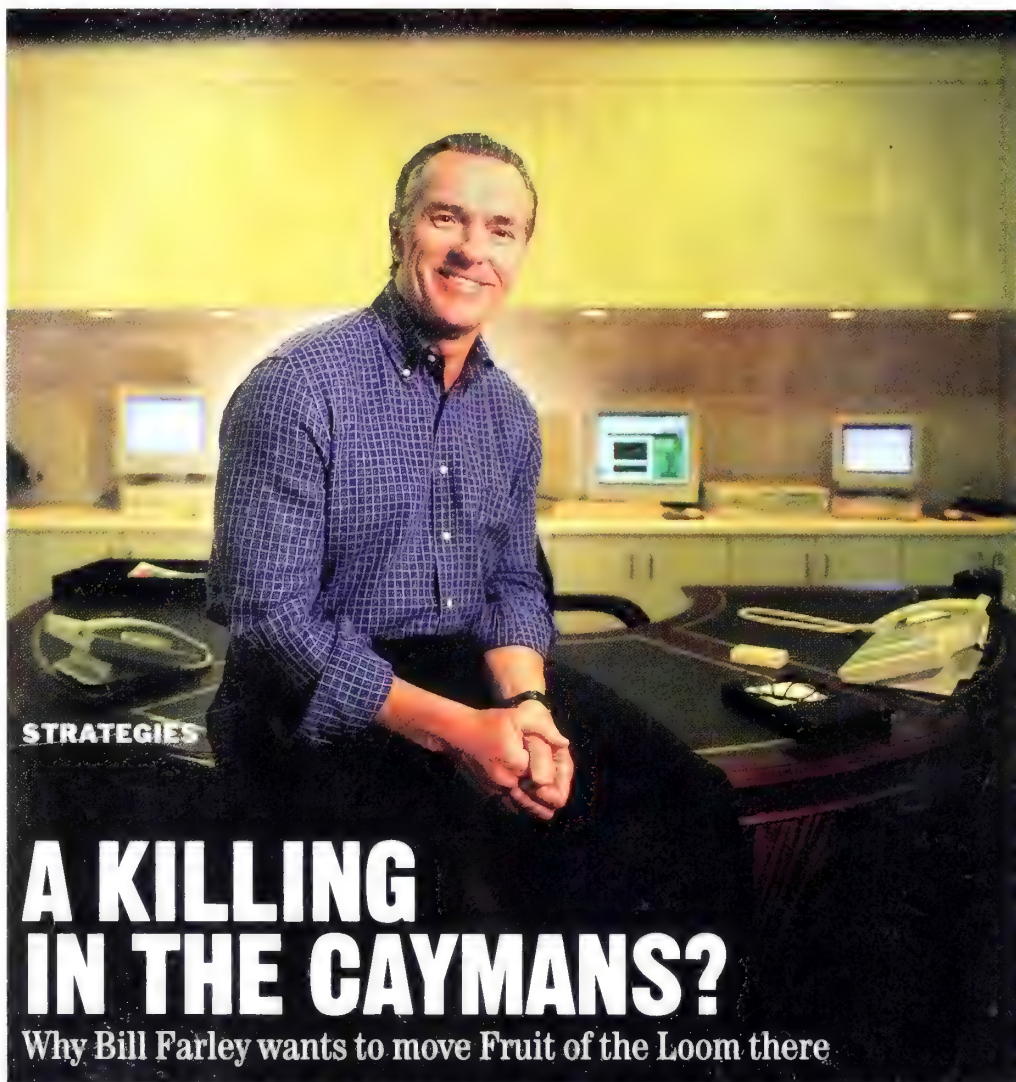
you'll probably want us to build your

CRITICAL BUSINESS APPLICATIONS

in record time!



www.sapiens.com



A KILLING IN THE CAYMANS?

Why Bill Farley wants to move Fruit of the Loom there

Sometime before July, Fruit of the Loom Inc. will host what's likely to be its last shareholder meeting on U.S. soil. The 72-year-old T-shirt maker isn't disappearing into the mergers-and-acquisition boom. Nor is it sinking into bankruptcy, as so many of the leveraged buyouts of the 1980s did. Instead, in an unusual move, William F. Farley, Fruit's chief executive and largest shareholder, is asking stockholders to move the company's domicile to the Cayman Islands. It isn't Shangri-la, but the Caribbean resort may be the last place the troubled underwear giant can forge a prosperous future.

Investors seem to agree. Since the transfer was announced, Fruit's shares have risen to 37 from 26. Current betting is the deal will pass handily. But shareholders, who've watched the stock tread water since 1992, don't appear to be counting on a turnaround. Instead, many figure the move increases the chances that Fruit will be snapped up by

another apparel maker. Donald Yackman, whose asset management firm holds 2.9 million shares, says that's reason enough to vote for the switch. "That makes the move attractive," he says.

"ERRORS." Indeed, the move appears to represent an extreme effort by Farley, one of the 1980s' most prominent leveraged buyout specialists, to boost Fruit's long-struggling shares. A series of management missteps in recent years have left the company in poor shape and investors irate. "Most CEOs who accumulate the number of errors he has are not in the position he's in now," says Yackman. But with the Caymans deal, Farley has promised to get the company back on firmer financial footing—though a close look shows Farley personally may be the biggest winner.

A flamboyant, charismatic

FARLEY: *Dividends will pay him millions a year*

ic dealmaker, Farley first rose to prominence in the 1980s when he built a mirage empire of apparel companies with \$4.5 billion in debt, most of it junk-bond financing from Drexel Burnham Lambert Inc. In his heyday, he controlled both Fruit of the Loom and West Point Pepperell Inc. A fitness nut who starts business meetings with aerobics, Farley once appeared in Fruit of the Loom ads doing sit-ups in a tuxedo. He even briefly considered running for President. But by 1991, with his empire collapsing, he barely stayed off liquidation.

Farley managed to hang on to Fruit, but in recent years, the company and its shareholders—unlike Farley himself—have suffered mightily. Farley soon acquired a string of small apparel firms, and in the process, Fruit's debt grew to \$1.2 billion. Farley aimed to more than double the company's revenues, to \$1 billion, but the highly leveraged deals never paid off. Some lost money, and Farley now concedes that even the best of the failed to provide the

pected growth. Their legacy, however, remains: Debt stands at a high 50% of capital, and Fruit faces a lofty \$100 million in average annual interest payments. Yet its operating cash flow for the year was a negative \$94.9 million.

Fruit meanwhile has been plagued by operating problems. A mismanaged attempt to move its sewing operations overseas cost at least \$60 million in

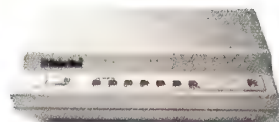
operating profits last year. Poor forecasting sent inventories soaring 37% in 1992 while Wal-Mart Stores Inc. and Kmart Corp. have complained about poor service.

Worse still, the one-time market leader was caught with its pants down as designers like Calvin Klein and Tommy Hilfger turned underwear into high-fashion, highly profitable niche. The result? While rival Hanes, which

CORNUCOPIA
The Caymans' lower tax rate could save \$100 million a year



FRUIT OF THE LOOM



The financial markets move at a dizzying pace. Now you can keep up, with the new

3Com U.S. Robotics

Internet finance

with
56K

U.S. Robotics® V.90 56K* standard modem. It connects up to 80% faster than other 28.8 modems, giving you quicker access to quotes, charts and reports than ever before. And it's compatible with nine of the top ten Internet providers and over 1,400 more around the globe. No wonder U.S. Robotics is the world's best selling modem. To learn how you can capitalize on more of the action, contact a U.S. Robotics reseller or visit www.3com.com/56kcentral.



Download speeds may vary. Requires a 56Kbps phone line and proper equipment. Complies with FCC Part 15.107 and 15.109. U.S. Robotics is a registered trademark of 3Com Corporation or its subsidiary. © 1998 3Com Corporation. All rights reserved. 3Com, the 3Com logo and U.S. Robotics are registered trademarks of 3Com Corporation. Courtesy of New York City Stock Exchange.

The Corporation

censes production for Ralph Lauren and others, has taken over the top spot, Fruit's market share has declined. And despite two restructurings—Fruit has taken \$800 million in special charges and laid off 16,355 U.S. workers out of a total 29,112 since 1994—operating results tumbled to a \$283 million loss in 1997.

BUYOUT? Even Farley concedes a Caymans move is unlikely to do much to solve those operating problems. To tackle them, he's brought in a new slate of experienced managers over the past eight months. And if the savings from moving manufacturing overseas finally kick in over the next year, Farley says Fruit will trim at least \$200 million in annual costs.

So why go to the trouble of moving the company to the Caymans? Farley argues that the main reason for the deal is to trim the corporate tax rate from 28% to 11%. He estimates the lower rate will ultimately save around \$100 million a year, freeing cash to help pay down the debt. "The concept itself is terrific," Farley says. "Brilliant."

But a review of Fruit's Securities & Exchange Commission filings and interviews with more than a dozen former and current high-level executives show that the Caymans proposal offers much more than a simple corporate tax break. It also provides Farley a hefty personal tax break—one which other investors won't share—even as it increases the income he receives from Fruit.

Though Farley holds just 7 million shares—10% of the company—he controls a 30% voting stake today. That's because some 82% of Farley's holdings are class B shares worth five votes each. According to the registration Fruit filed with the SEC about the Caymans move, if Farley were to swap his Fruit stake on the open market for a comparable stake in the company once it is based in the Cayman Islands, he would face a large capital-gains bill from Uncle Sam. "A substantial amount of [Farley's B shares] would have to be sold...to

pay the tax," the document continues.

Of course, that is exactly the swap some other shareholders are being asked to make, and under Internal Revenue Service rules they will have to pay capital-gains taxes on the transaction. But since such a trade could jeopardize Farley's control over Fruit, the filing says the Cayman move is structured so that Farley can avoid paying taxes and maintain his voting rights.

Moreover, Farley will be given control over how his new stake is structured. His current B shares will become

offered the exclusive right to buy F shares in the new Cayman company at a price equal to the publicly traded A shares. These new B shares will again have extra voting rights, preserving Farley's voting power. And though he will pay no taxes on the exchange of shares, the company is expected to pay around \$10 million in corporate taxes for the move. The IRS and the SEC are looking into whether the deal is better for Farley than for other shareholders. "It certainly benefits Mr. Farley," says one former Treasury attorney who specializes in offshore corporations.

Nor do the benefits end there.

Fruit is eventually acquired, Farley's tax rate could be far lower than the company remained as it is today—leading several investors and former executives to conclude that Farley's real aim in moving the company is to find the most advantageous way of cashing out his stake.

All agree that Fruit of the Loom will be a more attractive acquisition target once located in the Caymans, thanks to the lower tax obligations. Added to the projected gains from trimming manufacturing costs, the company could generate cash flow of \$300 million as early as this year.

Farley says he isn't actively looking to sell the company. But numbers like those have convinced Wall Street a deal is likely. Analyst Dennis S. Rosenberg of Credit Suisse First Boston says two good years of solid performance and free cash flow of at least \$300 million could set Fruit up nicely for a sale. Rumored suitors include Waco Group Inc., which supplies Fruit with bras and other intimate apparel, and VF,

maker of Vanity Fair sleepwear and activewear. Both declined to comment.

In setting up the Caymans move, Fruit's board of directors has also helped Farley pay off some private debts. Until last November, Leon D. Black, the former Drexel mergers-and-acquisitions specialist, held the debt of privately owned Farley Inc., the entity through which Farley owns 3.1 million shares of class B Fruit stock. Those shares backed Black's debt. But last September, Farley says the board became worried that questions might arise over control of voting rights to those shares once



preferred shares in a Fruit subsidiary called FTL-Delaware. These preferred shares, which are only being offered to Farley, will pay dividends—the first Fruit shares to offer dividends since the company went public in 1987. The exchange rate and the dividend rate, according to the filing, will be set by Farley 20 days before the shareholder vote—within guidelines fixed by the board. Fruit estimates those dividends will reach at least \$5 million a year, but shareholders say they could more than double that.

That's not all. Farley is also being

You see coffee

We see data



©1998 Sprint Communications Company L.P.

Two-thirds of the *Fortune 500*® rely on Sprint's vision of data

Every day, industry relies on data to sell products, satisfy customers and manage people and processes. That's why Sprint, as a leader in advanced data communications, offers a full portfolio of solutions for your applications — from simple e-mail to complex integration of voice, video and data. And that lets us give thousands of companies a competitive edge. We can do the same for you. **Because business runs on data. And data runs on Sprint.** www.sprint.com 1-888-730-DATA



We help your business do more business™

company moved to the Cayman Islands. So two months later, Farley bought Black out. Where did he get the money? According to Fruit's 1997 10-K, from a \$26 million loan guaranteed by Fruit.

It's not the first time the company has guaranteed a Farley loan: A similar 1994 pact guaranteeing a \$12 million line of credit was widely decried as self-dealing by institutional investors. But Farley dismisses his critics. "The board approached me and suggested that it might be appropriate to buy out Leon," says Farley. Adds Director A. Lorne Weil: "If the board didn't consider it appropriate, we wouldn't have done it."

LOADED PROFITS. The loan guarantee is part of a long, very public debate over Farley's gains from Fruit. Investors have been particularly scathing in their criticism of his 1996 compensation. Thanks to a big rise in operating earnings in 1996, he received \$15 million in salary, bonus, and options. But then results for the first two quarters of the next year tanked. The culprit: Fruit had front-loaded revenues and profits in late 1996 for goods not scheduled for delivery until the following spring. Orders then tumbled in the spring of 1997, contributing to losses for the year.

Though allowed under accounting rules, the events caused an uproar among investors. Several large shareholders say Fruit told them the publicity over Farley's pay prompted creditors, including NationsBank Corp., to pressure him to pay down his large personal debt, as well as that of other companies he owned. NationsBank refused requests for confirmation. Farley denies being pressured, but several major investors say executives told them that's what led to Farley's sale of 900,000 Fruit shares in May and June last year: Farley pocketed \$30.6 million—and then riled investors again when, four weeks later, Fruit announced a 51% slide in second-quarter earnings.

That shareholders will put that history aside and follow Farley abroad surprises some. "If you saw *Men in Black*, they had that little device that flashed a light and the person's memory was erased," comments a consultant for a rival apparel maker. "It's like Farley has the same effect on Wall Street." But investors say they haven't forgotten. They simply see the Caymans deal—and the possibility of a lucrative sale—as the best exit strategy for a stock that has gone nowhere. "The financial community in America is forward-looking," says Farley. "Not forgiving necessarily, but forward-looking." Southward-looking, at any rate.

By DeAnn Wenner in Chicago

STRATEGIES

HOME IMPROVEMENT AT BLACK & DECKER

It's getting back in the groove, and Wall Street has noticed



As Black & Decker Corp. Chief Executive Nolan D. Archibald tells it, the timing was perfect. In early 1998, he announced plans to unload a handful of underperforming and peripheral units. After nearly a decade of managing a hodgepodge of businesses, Black & Decker would focus on its strengths: power tools and home-improvement products. The businesses for sale had been improved, and a booming market made it a great moment to sell. With its best balance sheet in years, the company could absorb the cost of the makeover, including a \$900 million write-off. "It all came together at the right time," says Archibald.

That may be so, but the CEO appears to have had plenty of other motivation. Franklin Mutual Advisors, run by activist investor Michael Price, began accumulating its 1.7 million Black & Decker shares in late 1996. Other investors also questioned Archibald's strategy.

ARCHIBALD: Restocking the toolbox after years of managing a hodgepodge

And last fall, Albert J. "Chainsaw" A. Dunlap, chairman of rival Sunbeam Corp., was rumored to be considering takeover.

Whatever the cause, investors are thrilled that Archibald is moving to put Black & Decker's erratic performance behind it. After years of trailing the market, the stock is up 19%, to \$51 a share, since the announcement. The Towson (Md.) company still faces intense competition, but the new focus on what it does best may finally position it for solid double-digit earnings growth. "There's a lot of work to get there," notes Lauriann C. Kloppenburg, director of equity research at Loomis, Sayles & Co., a large investor. "But now, they can actually be in the game to do it."

For shareholders, even such measured hope has been a long time coming.

I Need Consistent
Information

And I Need It
Quick

But It Has To Be
Reliable



The SAS® Data Warehousing Solution

**Data Warehousing
Product of the Year**

**Maximum Return
on Investment**

**Information Integrity
and Quality**

**Integrate Diverse
Business Entities**

Web Enabled

Year 2000 Compliant

So much business information. Scattered in so many places throughout your company. Is it any wonder you find it difficult to get your hands on just the right facts to fuel effective decisions?

The SAS Data Warehousing Solution—from the leading decision support provider—delivers consistent, reliable, and timely information right when you need it. Information you can bank on. Information you can build on. Information you can explore from every angle and present in any format.

Find out why more than 3.5 million decision makers in every corner of the world rely on a single software for information delivery and discovery. Visit us at www.sas.com/dwb for more details and to request a free SAS Data Warehousing mouse pad.

**Turning Data
Into the Right
Information...
To Help You
Reach The
Right Decisions**

SAS Institute Inc.

The Business of Better Decision Making

www.sas.com/dwb E-mail: bw@sas.com Phone 919.677.8200

SAS is a registered trademark of SAS Institute Inc. Copyright © 1998 by SAS Institute Inc.

The Corporation

ing. Through much of the 1990s, Black & Decker's performance has been disappointing. At the heart of its problems was the 1989 acquisition of Emhart Corp. for a steep \$2.7 billion in cash. Archibald argued that Emhart's plumbing and locks businesses fit Black & Decker's home-improvement customer base and the retailers it already served.

Nevertheless, half of Emhart's businesses—including a golf-club-shaft maker and a manufacturer of glassmaking equipment—just didn't fit. Archibald planned to sell those, but after the acquisition, a global recession hit, the deal

unwanted vestiges of Emhart, and a small-appliance business. That should help Black & Decker's margins. But to grow, Archibald needs innovative products and strong marketing. Recent hits include the VersaPak system of interchangeable batteries—usable in Black & Decker's consumer cordless power tools—and DeWalt professional power tools.

The DeWalt line, launched in 1992, has been a tremendous success, growing to nearly \$1 billion in sales in just six years. Combining high-quality products, bold yellow-and-black packaging, ag-

Even with a history of strong new products and promising manufacturing improvements, Black & Decker faces plenty of challenges. The consumer power-tool market is crowded and will get even tougher if the economy cools and recent strong levels of homebuilding slow. Consultants Frost & Sullivan in Mountain View, Calif., figure that a slowdown will trim the current annual growth of 4% to 6% in electric power tools to a more moderate 3% to 4% in the next year or two.

"SWARM" TEAMS. While overseas markets seem promising, Europe is likely to be slower going than the U.S. At home Black & Decker sells through giants such as Lowe's Cos. and Home Depot Inc. In Europe, however, retailing is fragmented. To boost European demand the company is doubling its number of "swarm" teams, which visit construction sites to demonstrate and lend products directly to workers.

Oddly enough, no matter what happens on the operating front, Black & Decker's earnings will get a guarantee boost in coming year from the first quarter \$900 million charge. Most will go to write off goodwill that's still on the

books from the Emhart deal. (Goodwill is the difference between what is paid for an acquisition and the book value of what is bought.) Analysts such as Merrill Lynch & Co.'s Jonathan L. Goldfarb say Black & Decker overpaid for Emhart. Still, the company says the write-off reflects only an accounting change preferred by its outside auditors. The move will cut amortization charges by about \$30 million annually for the next 30 years, almost completely offsetting the lost income from the businesses being sold.

That will lift the heavy shadow the deal has long cast over Black & Decker's balance sheet, but Archibald has long way to go. "There is still some skepticism [about the company]," says Goldfarb. Surprisingly, one way Archibald plans to grow is through more acquisitions. This time, however, he promises the deals will be small product-line purchases. It's a more conservative approach than he took with Emhart, and probably a wise one.

By Amy Barrett in Towson, Md.
with Gail DeGeorge in Miami

HOW BLACK & DECKER IS POWERING UP



✓ Selling peripheral and underperforming businesses, including small household appliances and sports equipment. Total expected proceeds: More than \$500 million.

✓ Streamlining manufacturing, particularly in Europe. Eliminating 3,000 jobs and shutting down four plants should generate \$100 million in annual cost savings.

✓ Rolling out higher-margin new products, especially in consumer power tools. Goal is to get as much as 30% of sales from new products, up from 20% in 1997.

market dried up, and Black & Decker was forced to hold on to a number of unwanted businesses. That left the company staggering under a debt load that peaked in 1990 at \$3.3 billion. Earnings quickly went into a tailspin, and the bottom came in 1992, when continuing operations generated a \$95 million loss. **STUMBLES.** Eventually, Archibald sold several revamped businesses. But just as results were ramping up, manufacturing problems caused Black & Decker to stumble again. The upshot: Operating income has risen only 7% since 1990, to \$489 million in 1997. Sales have grown modestly, to \$4.9 billion last year.

Now, Archibald promises, the bad news is over. Up for sale are the last

gressive promotion, and free trials, DeWalt knocked competitor Makita Corp. out of the No. 1 position in the U.S. in 1995. Prudential Securities Inc. analyst Nicholas P. Heymann says such success has helped make Black & Decker "the Michael Jordan of power tools."

To defend that title, Black & Decker has cut development time for new products from 36 months five years ago to 20 months today. It is also on a drive for manufacturing efficiency. Scheduled to cut \$100 million in annual costs, the overhaul will consolidate production and close four plants outside the U.S. Archibald says this will help hike operating margins from 11% to 13% in two years, and ultimately to 15%.



Where would you like that delivered?

■ We're probably not the first state to promise you the moon. But we are, perhaps, more qualified than most to follow through on it. Mississippi has an aggressively pro-business environment. And, given our long-standing tradition of cooperation between business and government leaders, you'll have the opportunity to establish relationships destined to last long after the negotiations. ■ Call 1-800-340-3323 to hear exactly what we have to offer. Who knows? We might be persuaded to throw in the stars, as well



Mississippi. We can do that.

PROTECTING INFORMATION

**BEWARE
OF DOG**



[WHAT YOU HAVE]

You just can't be too protective of your company's information. And at Seagate, we have what you need to make sure it's always there when you need it. Software like Seagate Backup Exec® and hardware like Sidewinder® tape drives work together to automatically back up and protect every bit of information, instantly. So even if a server crashes, (which has been known to happen), your data should never become, well, extinct. It's just one of the ways Seagate hardware and software can help process, analyze and protect your information. So you'll have it, the way you want it. To find out more, visit us at www.seagate.com/bw

Seagate, the Seagate logo, the tagline, Seagate Backup Exec and Sidewinder are registered trademarks or trademarks of Seagate Technology, Inc.

**BEWARE
OF T-REX**



[WHAT YOU WANT]

 **Seagate.**

Information, the way you want it..

THE 800-POUND GORILLA'S NEW TOY

Microsoft's new video software is coming on strong

For the past year and a half, there hasn't been much to cheer about in Building 9 on Microsoft Corp.'s campus in Redmond, Wash. That's where engineers labor on the company's NetShow streaming-media technology—which has been roundly criticized for producing nearly unwatchable postcard-size videos on PC screens. "To date, NetShow has been a no-show," says analyst Gregory Tapper of Giga Information Group.

That's about to change. On May 4, Microsoft plans to release its first public test version of NetShow 3—in advance of a formal June launch. People who have seen the new technology, used to send video and audio clips over the Web, say NetShow is finally ready for prime time. It has improved compression, which makes video clips satisfying even on a 28.8 kbps modem. And its so-called intelligent streaming technology adjusts on-the-fly to changing network conditions, such as traffic bottlenecks. "It improves the quality of the video dramatically," says Mark Cuban, CEO of AudioNet Inc., a leading provider of live video and audio content via the Web and a NetShow user.

Video technology may seem arcane, but Microsoft sees it as the key to crossing the chasm between the PC world, where it rules with its Windows software, and the much larger TV realm, where it barely has a toehold. Microsoft is distributing NetShow with its Windows operating system free of charge. Wide acceptance of the new version by Web publishers and consumers could drive demand for its Windows NT servers, WebTV service for browsing the Internet via television, and its new software for interactive cable. "In the long run, the Internet and corporate intranets will join radio, TV, cable, and satellite as a major broadcast network for entertainment and business communication," says NetShow product manager Gary Schare.

Today less than 1% of Web sites make heavy use of video. But Giga-

Tapper estimates that those sites will number in the thousands within two years and will be tens of thousands a couple of years later. That's largely because of improvements by Microsoft and video technology leader Real Networks Inc.—combined with the switchover to faster 56 kbps modems. These changes make the Web more appealing to businesses and consumers and could spawn a slew of new products, services, and content worth several billion dollars over the next half decade, according to market researcher Paul Kagan & Associates.

LIVE COVERAGE. Web site operators and software developers already are revving up. Media giants such as CNN, Fox, and MSNBC are making aggressive use of video on their Web sites. Last summer, CNN transmitted live video over the Web of Princess Diana's funeral. ZDnet News, a leading technology news site, plans to offer far more video over the coming months. Executive Producer Patrick Houston points to Apr. 20 when Microsoft Chairman William H. Gates III was embarrassed after Windows 98 crashed during his demonstration at the Comdex computer industry conference. "You can't express that moment any better than in video," says Houston. And in the business realm, dozens of software companies are building programs for video-based training, video archiving, and video corporate communications.

Microsoft's technology is finally up to the challenge. It includes Microsoft Media Player, software for receiving video, audio, and other multimedia content over PCs. The server-side component makes it possible to deliver quarter-screen video over dial-up modems—on up to high-quality, full-screen video over cable-TV networks. And a high-end product, Theater Server, is designed for hotels and airlines that want to deliver broadcast-quality video with such services as city guides and interactive shopping.



FIRST, MICROSOFT BUYS INTO THE TECHNOLOGY...

VODNET, OCT. 6, 1996 Microsoft invests \$5 million for a 10% stake in VODnet of Palo Alto, Calif. The two companies share their video-conferencing technologies. But Microsoft's expected entry into video streaming, which allows continuous motion, slows demand as customers wait to see the giant's technology. Last fall, VODnet was forced to cut its staff in half.

REALNETWORKS, JULY 21, 1997 Microsoft invests \$1 million and pays another \$30 million to license the Seattle company's core and video-streaming technologies. Real Networks remains the leader, with 85% market share, but is forced to give its basic streaming software away free in order to match Microsoft's giveaway strategy.

VXTRME, AUG. 5, 1997 Microsoft pays \$75 million to buy the Sunnyvale (Calif.) company and moves its operations to Washington. VxTreme's technology forms the basis for NetShow 3.0, the first version of Microsoft's video streaming technology that analysts are taking seriously.



Microsoft's pricing tactic is very familiar. It's exactly the approach Gates used to batter Netscape, the early front-runner in Web browsers

Microsoft didn't get here by hard work alone. The software giant has either bought or made equity investments in most of the top video-streaming players in a bid to catch up. It spent \$60 million on an equity-investment and licensing deal with RealNetworks and paid \$75 million to buy vxtreme Inc. Earlier, it invested \$5 million to get a peek at technology developed by video pioneer VDonet Corp. That has given Microsoft access to technology that it combined with its own software, which first debuted in December, 1995.

It also has given trust-busters cause for concern. As part of a wide-ranging anti-trust probe, the Justice Dept. is investigating Microsoft's video-streaming moves. Justice was alarmed that Microsoft might buy its way into dominance of Web video, according to executives of rival companies who have been interviewed by government investigators.

Of particular worry: that Microsoft's dominance and appetite for video-streaming companies would poison the field for startups. "We told them venture capitalists don't like to invest where Microsoft has its foot in the door," says James Long, chairman of Starlight Networks, a developer of business-video applications based in Mountain View, Calif. Still, Long and other execs say they didn't accuse Microsoft of playing unfairly. And Rob Glaser, CEO of RealNetworks, the video-software leader that holds an 85% share of all Web pages that use streaming media vs. Microsoft's 5% share, says he's not counting on government help (page 64). "Even if Microsoft prices below cost,"

says Glaser, "we still think we can win."

Pricing is Microsoft's key advantage in its attempt to catch up with RealNetworks. Microsoft bundles the NetShow player and server for free with Windows and NT server software. If the tactic sounds familiar, it is. That's exactly the approach Microsoft used to batter Netscape Communications Corp., the early leader in Web browsers. The result: Microsoft grabbed a 40% market share in two years and forced Netscape to start giving away its browser, too. The analogies between browser and video software "are haunting. This happens time and time again," says David Limp, vice-president for marketing at Network Computer Inc., which competes with Microsoft's WebTV unit.

But there are some key differences. Most significantly, unlike Netscape and its browser, RealNetworks poses no direct threat to Microsoft's Windows desktop hegemony—so there's less motivation to crush it outright. Instead of targeting RealNetworks as pointedly as it did Netscape, Microsoft can instead overtake it in time.

SETTING STANDARDS. Indeed, Microsoft is trying to promote the entire video industry. Last summer, the company proposed the so-called Advanced Streaming Format—a de facto standard ultimately supported by more than 40 other companies, including RealNetworks. A standard was needed to assure compatibility between the major streaming-media technologies. But it also means that Microsoft is trying to set up its own technology as central, giving it an advantage in courting developers.

In new markets such as video, friends matter. So Microsoft is following its successful Windows blueprint by drumming up support from developers of software programs and tools. Some 100 companies learned how to build applications on top of NetShow 3 at a February workshop. For Excalibur Technologies Corp., which is developing a video-search product, the ubiquity of Windows was the deciding factor in its decision to forge a major relationship with Microsoft, even though it is collaborating with RealNetworks. "We went where there's a significant market opportunity," says Daniel Agan, vice-president for worldwide marketing. Excalibur's new product, Screening Room, which is used to search and archive videos, works on top of NetShow.

Right now, RealNetworks is the preferred video-technology provider for most of the major consumer Web sites. But Microsoft is beginning to gain mindshare. Over the next couple of years, Paul Kagan & Associates expects it to capture 25% of the video server

...THEN GIVES IT AWAY

Microsoft NETSHOW 3.0

Software that receives and plays a variety of content streamed across the Net from a NetShow server. Price: Free

Microsoft MEDIA PLAYER

Software that receives and plays a variety of content streamed across the Net from a NetShow server. Price: Free

Microsoft NETSHOW SERVER

Software for broadcast-quality video streaming in hotels and corporations. Price: To be announced

A high-angle, black and white photograph of the rear passenger compartment of a Lincoln Town Car. The image shows two leather-upholstered seats with horizontal stitching. The center console is visible between the seats. The door panel on the right side of the frame shows a door handle and a storage pocket. The overall lighting is dramatic, highlighting the textures of the leather and the interior trim.

**This should finally put an end
to all that "less is more" nonsense.**

Whose idea was this whole "less is more" business, anyway? Certainly not ours. That will be apparent the moment you slip into the supple leather-trimmed seats of the new Lincoln Town Car. Everything you look for in a luxury car is there.

 **LINCOLN**



Serious comfort. Distinctive design. Quiet elegance. And Town Car's legendary smooth ride. Because having it all is what the car is all about. For a free brochure, call 1 800 446-8888 or visit our web site at www.lincolnvehicles.com.

The new Town Car from Lincoln. What a luxury car should be.

market. "This can be like Pepsi and Coke, with neither one totally dominating," says analyst Jae Kim.

Already, popular media sites such as Bloomberg LP and CNN Interactive have decided to support both Microsoft's and RealNetworks' technologies, even though NetShow is not widely used by consumers yet. They say the quality is roughly comparable.

And "there's great appeal in something that's free," says Jonathan Fram, general manager for Bloomberg's Internet Group. At CNN Interactive, which next month is launching a video site, the decision to use both technologies was a strategic one. General Manager Mark Bernstein says he wants to help make sure that there is always an alternative to Microsoft. "We don't want Microsoft

to dominate the Internet," he says.

Still, he won't bet against the software giant. And over the long haul, even CNN might find it cumbersome to support two video formats. If that's the case, the technology that's available nearly everywhere, and for free, will have the advantage—and Gates may be the one saying, "Lights, camera, action."

By Steve Hamm in San Mateo, Calif.

A TRAILBLAZER SCRAMBLES TO STAY OUT FRONT

Don't ask RealNetworks Chief Executive Rob Glaser how the latest version of his Internet video software stacks up against Microsoft's similar product. Says the pugnacious Glaser, who was the first to bring audio to the Internet: "I can't imagine that anyone who has seen Real's software would think Microsoft is even on the same planet, much less in the same neighborhood."

Such chutzpah—and some cutting-edge technology—has made Seattle-based RealNetworks Inc. the No. 1 provider of software that dresses up the Net with lively video. Today, Real claims its software is used on 85% of all Web pages that use streaming media, with some 21 million people having registered to use it. That helped double the company's revenues in 1997, to \$32.7 million, and a 48% jump is expected this year, says analyst John F. Powers of BancAmerica Robertson Stephens.

REDMOND RIVAL. Or at least it was expected. Suddenly, it looks as though software giant Microsoft Corp. may be getting its video act together. On May 4, Microsoft plans to release a test version of its much improved rival product, called NetShow 3. If it's a hit, as some analysts predict, Microsoft will come out swinging, and the four-year-old startup could find itself trying to avoid the ropes.

Not that Glaser isn't used to fancy footwork. The 36-year-old CEO spent most of his software tutelage working for the master—Microsoft's William H. Gates III. Glaser joined Microsoft's marketing ranks at age



REALNETWORKS' GLASER: *Battling his former mentor*

21 and, over the years, became known for a pit-bull style not unlike that of his mentor. Glaser built Microsoft's multimedia CD-ROM business into a powerhouse before resigning in 1993 with \$15 million worth of Microsoft stock. In 1994, Glaser plunged \$1 million of that into his startup, then called Progressive Networks, but renamed to align with its product names when the company went public last fall.

But Glaser has never strayed far from Microsoft. Last year, Microsoft paid \$60 million for a 10% stake in RealNetworks and licensing rights to some of its technology. Since then, Glaser has zigzagged between being a Microsoft ally and an adversary. On one hand,

Microsoft includes Real's 4.0 software in its browser and Windows NT server. That gives Real's technology broad distribution. But because Microsoft gives the video software away free, RealNetworks was forced to stop charging for its basic server, priced at up to \$995.

The benefits have outweighed the disadvantages, says Glaser. Microsoft helped seed the market for Real to sell its \$5,000-plus, high-end video server. And Microsoft doesn't have the licensing rights to Real's new technology without ponying up more money.

What's ahead, though, may not go as smoothly. By all accounts, Microsoft's latest version of NetShow is on par with Real's

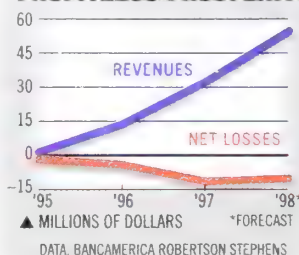
last update, RealSystem 5.0. Glaser's answer: a second-generation technology, dubbed G2, that will be out in test form in May and has better resolution and automatic update features.

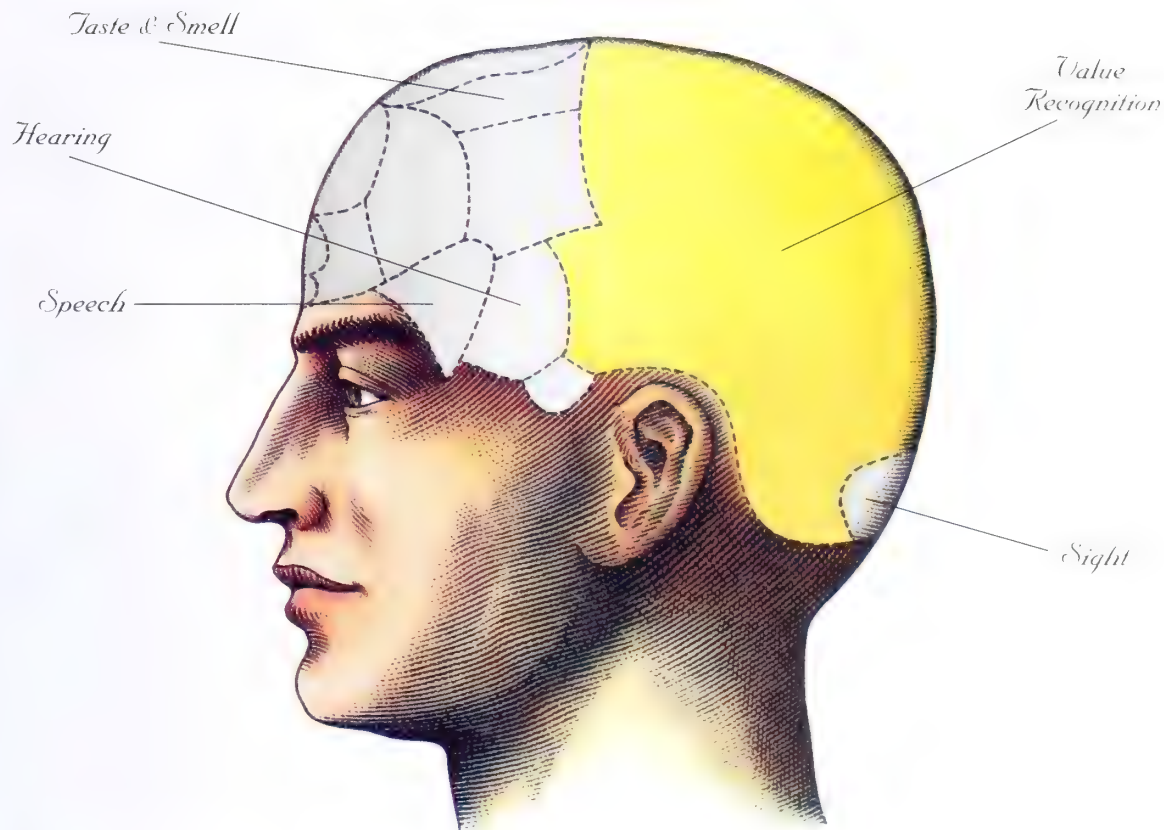
The snag: G2 won't be included in Microsoft's products, while NetShow will be. Analysts say that could boost Microsoft's market share to 25% in the next couple of years. "What they have isn't adequate or sufficient,"

counters Glaser, who was strutting around RealNetworks' headquarters recently with a G2 T-shirt stretched over his button-down shirt. Maybe so, but many are betting that it's going to take more than G2 T-shirts to outmaneuver Microsoft.

By Seanna Browder in Seattle

REALNETWORKS' PROFITLESS PROSPERITY





Those who fly First Class for the price of Coach share a very highly developed characteristic.

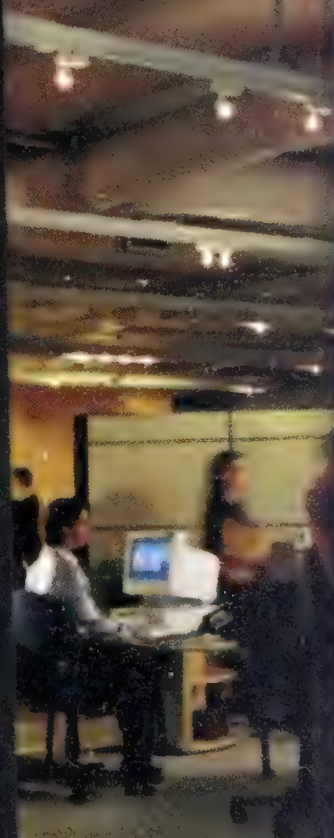
It's been said that we use a mere 10% of our brain capacity. If, however, you're flying ConnectFirstSM from Northwest Airlines, you're using considerably more. Because with ConnectFirst, you can fly First Class for the price of Coach. Pretty smart. Just purchase a full-fare Coach ticket on a qualifying connecting flight, and you'll receive an automatic upgrade to First Class. Plus, you'll receive an additional 1,000 WorldPerks[®] Bonus Miles roundtrip. Call Northwest at 1-800-225-2525, book online at www.nwa.com, or call your travel agent and ask for a ConnectFirst fare. You'll be glad you thought of it.



1-800-225-2525 / www.nwa.com

Travel in First Class using -UP fare is valid in most but not all domestic markets. Reservations in First Class are required. Passenger must travel in First Class if seats are available. Offer excludes Airlink. Seats are limited. Some restrictions apply. ©1998 Northwest Airlines, Inc. Northwest recycles enough paper products in one year to save over 6,874,000 gallons of water.

WHAT'S IT GOING
TO TAKE TO GET
A DATA NETWORK
AS RELIABLE
AS THE VOICE
NETWORK?



INTELLIGENCE Every day, the need becomes more critical. Your data network has got to work. No matter what. No matter where. (Just like your voice network.) What's it going to take to get that kind of reliability? For 128 years, we've built the most reliable networks on earth. And we bring that same level of reliability to data. We're building data networking products with self-diagnostic software. They monitor themselves. They fix themselves. We're also making most critical components redundant. Just to be smart. We know what the reliable data network of the future looks like. We can make sure that network is yours. **We make the things that make communications work.™**

Lucent Technologies
Bell Labs Innovations

600 Mountain Avenue
Murray Hill, NJ 07974-0636
<http://www.lucent.com>





UNLIMITED PARTNERSHIP

TAMMY MARQUEZ FROM ARAMARK'S CHILDREN'S WORLD LEARNING CENTERS, and CATHERINE HOOFARD FROM FUJITSU MICROELECTRONICS, GMD

TARDINESS IS DOWN

10% thanks to ARAMARK's Children's World Learning Centers, and we've managed to save

\$60,000 A YEAR.

"It started out pretty simple," says Catherine Hoofard of Fujitsu® Microelectronics, GMD. "We wanted to increase child care benefits for our employees. Tammy Marquez and her team at ARAMARK showed us how to do that and save money. They tailored the hours of two centers to accommodate our specific needs. By opening the centers earlier than usual, our employees can drop off their children and make it to work on time." At ARAMARK we're always looking for ways to help our partners make their employees happy. And with Fujitsu® Microelectronics, GMD, it was just a matter of working together to plan the best child care program for everyone involved – especially the children. It was such a success, we've already expanded the program to include infant care. What do employees think? Catherine says it best, "Parents are coming back to work sooner and staying with Fujitsu® Microelectronics, GMD longer. We were even voted one of the top 100 companies to work for in Oregon. Not to mention, we've had a 10% drop in tardiness and save \$60,000 a year."

To learn more about Managed Services through Unlimited Partnership call 1-800-ARAMARK or visit us at www.aramark.com

 **ARAMARK**
Managed Services, Managed Better.

TOO MUCH OF A GOOD THING?

Seattle and other cities may be overbuilding sports facilities

When Paul Allen, co-founder of Microsoft and owner of the Seattle Seahawks, forced a special referendum on a \$425 million football stadium last spring, the odds seemed stacked against him. Taxpayers were being asked to subsidize a team that had never won anything, had been losing fans for years, and was owned by one of the world's wealthiest people—"the accidental zillionaire," as *Wired* magazine has dubbed him. And it didn't help that Allen made his pitch on the heels of contentious negotiations with the Seattle Mariners over their newly approved \$417 million ballpark. Still, the stadium measure passed. Seattle is like that these days—a place where anything seems possible. The economy is up, crime is down, the sun is out (take a bow, El Niño), and the biggest problem for the area's lead company, Microsoft Corp., is that it is too dominant in its industry. Given the chance to erect a spectacular football stadium next to the ballpark, voters figured, what the heck, let's build our own mountain range between the Olympics and the Cascades. The football complex is the most expensive in the sport's history. The retractable-roof ballpark also sets a record for baseball stadiums. All told, with a \$1 million overhaul of the SuperSonics' arena and \$50 million in planned upgrades to the University of Washington football fa-

cility, close to \$1 billion has been dumped into Seattle sports in the past two years.

When all the buildings are finished after the turn of the century, Seattle will have one of the most enviable sets of sports facilities in the world—all within a 10-mile radius. And with a new rail system on the way, the city seems well-positioned in its bid for the 2012 Summer Olympics. But amid all the feel-good boosterism, there's a pesky question that's starting to demand an answer: Can we afford all of this?

More specifically, is Seattle's corporate community big enough—and motivated enough—to gobble up the luxury suites and other high-end seating that help make the new generation of stadiums so profitable? When the last dab of paint has dried on the new facilities,

There are nine
markets with more
luxury suites than
companies to buy them

THE KINGDOME: HEADED FOR A FALL

there will be 194 luxury suites available—at \$50,000 to \$125,000 a year—in a market that currently has only 146 companies with 500 or more employees.

Seattle is not alone. There are currently nine U.S. markets—including Dallas, Detroit, and Tampa-St. Pete—with more suites and skyboxes available than there are large companies to fill them. That number will grow in the next few years as 16 stadiums and arenas in 13 cities open for business.

KEEPING UP. Today, teams desperately need corporate support, says Mark S. Rosentraub, an Indiana University professor who studies the impact of sports on urban areas. Rosentraub says if a team can't sell luxury seats, "everything drops. The club cuts [highly paid] players, and it gets worse. It becomes a spiral." And when the going gets tough, owners get going—right back to City Hall. There, they threaten to break leases and take teams out of town unless they get a sweeter deal.

The pressure is intense to keep up with the Joneses—Jerry or otherwise. No league requires clubs to share money generated by luxury seating, so teams such as Jones's Dallas Cowboys, with its 380 skyboxes and \$50 million a year in nonshared revenues, gain a competitive advantage. It's no coincidence that three of the four contenders for a baseball pennant last season—Cleveland, Baltimore, and Atlanta—are among the high-revenue teams.

Still, observes Chicago investment banker Paul Much: "The real competition is between leagues." Clubs in markets with more than one pro team must compete with the other franchises for the local corporate dollar. That is partly why Seattle's 20-year-old Kingdome, an otherwise fine facility in which to watch

football on rainy fall days (thanks to a new \$60 million roof) will be torn down and replaced. It



was deemed economically obsolete by Allen, who will be trying to sell 70 suites at the same time the Mariners are looking to fill their 66. Can they do it? "I don't think anyone knows the answer for sure," says Seattle Chamber of Commerce official Michael Campbell.

EGALITARIANS. Bay Area franchises, which rely on the same technology-fueled wealth, offer little encouragement. The Oakland Coliseum Arena reopened this NBA season with \$100 million in upgrades and 72 new suites. Many of them remain empty. It's the same story next door at the Oakland-Alameda County Coliseum, where the mediocre Raiders play. And at the Kingdome, only 22 of 54 suites have been sold on a year-round basis. "The [business execs] here want to be part of the crowd rather than separate from it," says Virginia Anderson, the Seattle official who oversees city-owned Key Arena.

Egalitarian as that corporate ethic may be, it will have to change if Seattle is going to support the sports facilities that are about to change its skyline. When building your own mountain range, it's not enough to merely gaze at the wonder you just created.

By Tom Farrey in Seattle

WHY THE YANKEES WANT TO WALK

That hardy perennial, the love-hate relationship between New York and George Steinbrenner, is in full bloom this spring as the debate over a new Yankee Stadium and where to put it gets hotter. Mayor Rudy Giuliani has been winning points by vociferously trying to keep the Bronx Bombers from straying to New Jersey. But a stadium on Manhattan's West Side, which Giuliani supports, faces a barrage of opposition.

One of the only issues that is not debatable, however, is that the New York-New Jersey market for luxury sports suites is ripe for the picking. There are some 200 suites for about 1,060 companies with more than 500 employees.

Says Marc Ganis of sports consulting firm SportsCorp: "The Yankees will be able to tap into the most un-

derstood market in the country for luxury seating. The price per suite will be the highest in the history of baseball. And the number of suites is limited only by the geometry of the stadium. You could see some suites for \$250,000 a year or more."

How much more? Fred Wilpon, CEO of the Mets, suggests that some 80 suites at the proposed multi-use replacement for Shea Stadium will be priced comparably to Madison Square Garden. The Garden charges \$325,000 to

\$400,000 for corporate suites. So if Yankees principal owner Steinbrenner traded his paltry 18 suites in the Bronx for 100 elsewhere at even \$300,000 a pop, he'd probably be looking at a minimum annual revenue stream of \$30 million. No wonder he's so antsy for a new park.



RUDY: YANK NO. 1

INTERNET ADDRESS: <http://www.datek.com>

Business Bulletin

Patho TEK Cures Common Cold

COLD CURE IN A BOTTLE, developed by Patho TEK, is due for release in mid April. CoryzaCC will suppress, and in completely wipe out, all symptoms of the common cold.

Big news can mean big opportunity. In the time it takes to sneeze, you can catch an unbelievable opportunity. So Trade Now™. Go directly to Datek...the fastest and easiest way to trade on the web. Only \$9.99 for any trade*. And if it's not executed within 60 seconds, it's commission-free. Trust your trade to Datek. And stay in the running.

**TRADE
NOW**



www.datek.com

* All trades up to 5,000 shares are only \$9.99. Commission is waived if your marketable order is not executed within 60 seconds. Some restrictions to this offer apply. Please check our website for more details. Average execution time on marketable orders is less than 10 seconds (as of 1/10/98). Free news, charts and research provided by NewsAlert, BigCharts® and Thomson Investors Network. Trade Now is a trademark of Datek Online. ©1998 Datek Securities Corp. Member NASD and SIPC.

**DATEK
ONLINE**

The Books To Use When There's No Time To Lose!

Take control of critical aspects of your life
with the Busy People series.

Page after page, these thorough, quick-reading books
combine handy short-cuts with skill-building advice to
save you time, money, ... and your sanity!

BUSY PEOPLE BOOKS are available at:

CALIFORNIA

McGraw-Hill Books
54 Telegraph Ave.
Berkeley, CA 94704
(415) 479-7744 (in CA)
(415) 995-1180 (nationally)

Online Sci-Tech Books
University Plaza, Suite 6
133 Culver Dr.
Berkeley, CA 92714
(415) 229-9514

San Diego Technical Books
10 Kearny Mesa Blvd.
San Diego, CA 92111
(619) 346-0071

San Francisco Bookstore
Market St.
San Francisco, CA 94105
(415) 926-6511

San Jose Bookstore
University Ave.
Alto, CA 94301
(415) 326-0681

San Jose Bookstore
University Ave.
Alto, CA 94301
(415) 673-2348

San Jose Books
Watt Ave.
Alto, CA 95821
(415) 481-6600
(415) 916-481-6820

UCLA Book Zone

University of California
308 Westwood Plaza
Los Angeles, CA
90024-8311
310-206-0764

UCSD Bookstore
9500 Gilman Dr.
La Jolla, CA 92093-0008
619-534-3149
800-520-7323

USC Bookstore
University of Southern California
840 Childs Way
Los Angeles, CA 90089
213-740-9027

CONNECTICUT

Yale Coop
924 Chapel St.
New Haven, CT 06520
800-ELI-YALE

GEORGIA

Chapter 11* Discount Bookstore
11 locations in metro Atlanta
MASSACHUSETTS
New England Mobile Bookfair
82-84 Needham St.
Newton Highlands, MA 02161
617-964-7440

Tatnuck Booksellers
355 Chandler St.
Worcester, MA 01602
508-756-7644

Waterstone's Booksellers
26 Exeter St.
Boston, MA 02116
617-859-7300

Waterstone's Booksellers
Burlington Mall
Burlington Mall Rd.
Burlington, MA 01803
781-229-2222

NEW JERSEY

Princeton University Store
36 University Place
Princeton, NJ 08540
609-921-8500

NEW YORK

Barnes & Noble Bookstore #200
105 Fifth Ave.
New York, NY 10003
212-807-0099

Benjamin Books
408 World Trade Center
New York, NY 10048
212-432-1103

Book Revue
313 New York Ave
Huntington, NY 11743
516-271-1442

Coliseum Books
1775 Broadway
New York, NY 10019
212-757-8103

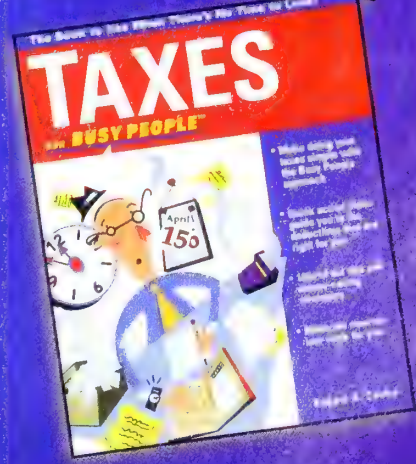
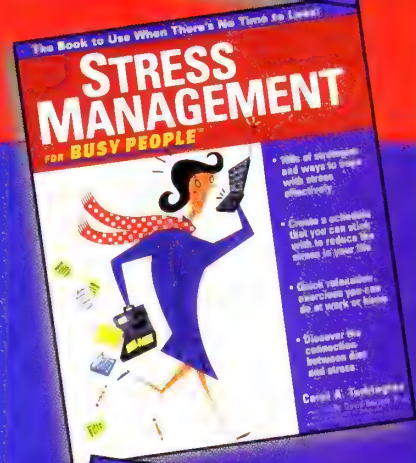
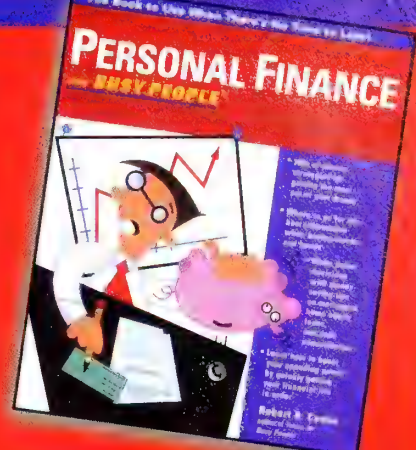
McGraw-Hill Bookstore
1221 Ave. of the Americas
New York, NY 10022
212-512-4100

NYU Professional Store
530 LaGuardia Place
New York, NY 10012
212-998-5680

Trinity Book Store
74 Trinity Place
New York, NY 10006
212-602-9689

PENNSYLVANIA

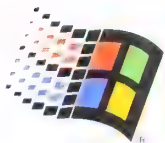
Waterstone's Booksellers
Pittsburgh International Airport
Pittsburgh, PA 15231
412-472-3165



Visit us at www.books.mcgraw-hill.com



Limited Time Offer



Get Windows 98 Upgrade*

Now there's a new way to carry your most vital information with you anywhere—with Palm PCs powered by the Microsoft® Windows® CE operating system. Featuring a familiar interface, all designed for a small, lightweight package that lets you keep connected when you're on the go.

Put Windows in the palm of your hand— and get your hands on Windows 98 Upgrade!*

You'll like the way Palm PCs keep you effortlessly up-to-date. Because of Microsoft ActiveSync™ technology, your Palm PC files stay continuously and automatically in synch with your desktop PC. Just connect your Palm PC to your computer, and it does the rest, updating your contacts, calendar, tasks, e-mail and notes. And entering data is a cinch, whether you handwrite notes, or use the voice recorder or on-screen keyboard.

Whether your Windows-based world includes a network, a desktop PC, or a laptop, you'll want the palm-sized unit that best connects with it all. Look for the logo that says "Powered by Microsoft Windows CE" to ensure secure access to every Windows-based device.



When you purchase a Palm PC powered by Windows CE between May 1 and June 30, 1998, you are eligible to receive a coupon worth approximately \$109 to get Windows 98 Upgrade when available.* Please see your local reseller for details. For more information about the companies that provide Palm PCs powered by Microsoft Windows CE, go to www.microsoft.com/windowsce/palmpc/.

'YOU'RE CLEARED FOR TAKEOFF, BOSS'

Longtime pilot Bill Compton is flying TWA toward profitability



WILLIAM F. COMPTON

AGE 51

EDUCATION

Associate Degree, Miami-Dade Community College

CAREER

- ▶ **1968-PRESENT** TWA Pilot
- ▶ **1986-96** Official at TWA branch of Air Line Pilots Assn.
- ▶ **1993-PRESENT** Member, TWA board
- ▶ **1996-97** Executive Vice-President of Operations
- ▶ **1997-PRESENT** President

PERSONAL

Married. Two children from a previous marriage. Lives in St. Louis

SALARY \$320,000 in 1998

The passengers had boarded, the plane was fueled, and the cockpit had been checked. Yet the TWA jet sat idle at the gate in St. Louis, and Captain Bill Compton wasn't very happy. He clenched his jaw and got on the radio: "We need a tug." Minutes passed. No help arrived to push the plane away from the gate. In the race to get to San Francisco on time, Flight 177 had already fallen behind.

Unlike the thousands of other delays at airports across the country on that April day, however, this one would not go unnoticed by those higher up the ladder. Before a week had passed, TWA would analyze its entire operation at St. Louis to determine whether tug delays were common. It was all the doing

of the pilot—who has a little bit of pull back at company headquarters.

In fact, William F. Compton, when he isn't out flying MD-80s, is the president of Trans World Airlines Inc. A pilot at the carrier for the past 30 years, he joined the company board as a union representative in 1993 and was picked to join management in a 1996 shake-up. Today, Compton is the only major airline executive whose voice you might hear over the intercom on your next flight. He's also the latest in a line of pilots-cum-managers at TWA that includes Charles A. Lindbergh and Howard Hughes.

"You get thousands of written reports telling you how things are going, but you get the best view from the

shop floor," says the affable, white-haired 51-year-old. "My shop floor is the cockpit." So despite a work schedule that keeps Compton at the office until most nights, he gets airborne for a couple of days a month. Each time, he comes back with a list of things that need improvement, and he fires off a quixotic E-mail to the company's vice presidents. Compton has had the wheel lines repainted on the St. Louis airport tarmac so that baggage trucks no longer get in the way of planes. And he fired a manager at another major airport who four months after Compton had been there, bags were still routinely late being loaded onto planes.

Thanks largely to his leadership, TWA is in the midst of a dramatic operation

They will do business at a pace that's hard to conceive of.

With industry in constant motion and global growth at lightning speed,

they will compute and invent faster than we can imagine.

America's largest generator of electricity already

Where in the world will they get the energy they need?

provides energy for millions of people worldwide.



turnaround. First as head of operations, and since his December, 1997, promotion to president, Compton has overseen TWA's efforts to get its planes to their destinations on schedule. The strategy: On-time planes mean more business travelers, which means more revenue and more financing, which will allow TWA to invest in the newer planes needed to complete the turnaround.

STILL IN THE RED. So far, Flight 177 isn't much of an advertisement for the strategy—it's running 18 minutes late before it even leaves the gate. But Compton and the TWA management team have a better story to tell about the airline's performance generally. By rallying the carrier's 22,000 employees—the same people he has been eating dinner with in airport motels for years—Compton helped lift the airline's on-time ranking from dead last in 1996 to second in 1997. The percentage of Trans World's seats being filled is now the highest since airline deregulation in 1978, and on Apr. 22 TWA reported its best first quarter in a decade.

Of course, it still lost money—\$54 million, including a noncash charge to issue stock to employees—and many challenges remain for the carrier. Consumers view it as a faded brand with a fleet full of old planes. Lingering uneasiness over the crash of Flight 800 has not helped. And if TWA's financial position is improving, it has a long way to go. Margins, as well as the average fares it collects from passengers, are near the bottom of the industry, in part because TWA attracts far fewer high-paying business passengers than any other major carrier. Though analysts expect it finally to turn a slim profit this year, its weak cash position, at \$346 million, could leave it vulnerable in a slowdown. "This is one of the greatest environments for the airline business in a very long time, and TWA is not making any money. That's scary," says one big investor.

On top of all that, with the recently

TWA'S TRAVAILS

The carrier has shown signs of life recently but still has a long way to go. Its challenges:

- ▶ No major U.S. airline carries a smaller percentage of high-revenue business travelers
- ▶ Employees, whose pay badly trails that of workers at rival airlines, want big raises in current labor talks
- ▶ Other carriers are signing domestic alliances, making their schedules even more convenient than TWA's
- ▶ TWA's international hub at New York's JFK suffers from the lack of a big-name partner airline

DATA: BUSINESS WEEK

announced marketing alliance between American Airlines and USAirways and a pending one between United and Delta, TWA will have to overcome rivals with even more convenient schedules than before. Indeed, TWA's bid to survive will be a test of whether today's skies have room for anything but behemoths and low-fare carriers. "TWA did not provide a good product for north of a decade," concedes Compton, as Flight 177 breaks above the clouds and moves beyond the 10,000-foot ceiling under which all cockpit chatter must relate directly to the flight. "People don't come back in the blink of an eye."

Still, it's hard to deny the progress that Compton, CEO Gerald L. Gitner, and other executives have made in the 18 months since they took over. "TWA is working on all the things that need to get worked on," says Cameron Burr, president of Burr & Associates Inc., a New Canaan (Conn.) aerospace-investment firm that owns about 1% of TWA. With \$500 million in new financing

over the past six months, the carrier has freed itself from debt to Carl C. Icahn and no longer seems an imminent candidate for a spot next to Eastern Air Lines in the corporate dustbin.

The fight to save the company is, in many ways, a personal one for Compton. He has worked there since he was 21, and he even met his wife, a TWA flight attendant, through the company. As for his love affair with planes, that began in Peru where, as a child, Compton used to watch his father flying for a subsidiary of Pan American World Airlines Inc. "I'd sit out on the ramp in Lima and look at the DC-3—with only 20 seats, and it would only go 120 miles an hour—and I'd say, 'Now, look at this big airplane,'" Compton recalls as Flight 177 soars over the Rockies at 530 miles an hour. "I knew I wanted to be a pilot."

FLIGHTS TO MECCA. Fresh out of Miami-Dade Community College with an associate degree in aerospace in 1968, he passed up offers from Pan Am, Eastern, and Delta and joined TWA because it was then the most global of U.S. airlines. However, the carrier, which was already in decline, had hired too many pilots in the 1960s. By 1971, Compton was put on furlough, and he returned to South Florida, where, as general manager of the Opa-Locka Airport flight school, he obtained his first business experience. Compton expanded the school's fleet from 8 planes to 38 and was put on the company's board of directors at the age of 25.

TWA called him back soon, only to release him again in 1973. Eager to stay in the cockpit, Compton was forced to leave the country. Nigeria Airways Ltd signed him up to fly Muslim pilgrims to Mecca from the country's capital, Lagos—a city whose airport nowadays is often listed on signs at American international airports warning travelers that it's among those that the U.S. State Dept. considers unsafe. ("The signs are right," Compton says.)

Twenty-five years ago, the Lagos airport wasn't exactly state of the art either. The Nigerian government was paying for the flights to Mecca and had the armrests in the Boeing 707 removed so that a fourth person could squeeze into each row. More often than not, at least one of the passengers would die.

Flying for Nigeria Airways in the 1970s is what gave Compton his white hair, he says



When you're looking for the most
outstanding
solutions
to your
outsourcing
needs,

there are only **two companies**
to consider...

and they've just
become
one.

The leading food and
facilities management
services provider to
corporations, health care
institutions, higher education
and school systems in the
United States and Canada.

SDH
Listed
NYSE

1-800-763-3946 ext. 85445

www.sodexhomarriott.com


Sodex^{*}ho Marriott
SERVICES

"Marriott" is a registered trademark of Marriott International, Inc., used pursuant to license. In March 1998, Marriott Management Services, a former division of Marriott International, Inc., combined its operations with Sodexho Alliance's in North America. ©1998, Sodexho Marriott Services, Inc.

board during the return leg of a pilgrimage. Compton explains: "Coming back from Mecca, the will to live was gone."

Once, Compton returned to his room at the Lagos airport hotel to find it flooded with sewage and his shoes ruined. When the airline fell far behind on paying wages, the crews flew the planes to London and refused to return until they were paid. The next day, a man ar-

in San Francisco, Compton began running a small investment and real estate business.

Back on the job at TWA in the mid-'80s, Compton ran for a union post, arguing that Icahn's proposed cuts were too severe. He says he never planned to leave the cockpit for nearly full-time union or management work: "I didn't have an ambition to be chairman [of the local union] or to do this job." But many people who have worked with him, and who remember how carefully he pre-

agement side." One sticking point Compton is only two years younger than Gitner, and if TWA begins to slip Compton would likely be seen as part of the team that didn't come through.

Compton's effort to improve TWA's operations began with a direct appeal to its employees. He wants them watching the carrier's on-time numbers as closely as he studies the St. Louis Cardinals box scores.

Shortly after taking over, Gitner and Compton decided that reversing TWA's

Looking down at the Sierra Nevadas, Compton

rived with a case full of \$100 bills. By the time Compton returned to the U.S. after seven months, his 6-foot, 2-inch body weighed 132 pounds. "That was where my hair turned white," he says.

From Nigeria, Compton moved on to Iran, where he flew cargo flights into Tehran, bringing luxury goods from Frankfurt, London, and Paris to be snapped up by the Shah's myriad cronies. TWA called him back again in 1976, but by the time Compton's third furlough came along, in 1981, he was ready for calmer pursuits. Then settled

pared for meetings with management, don't buy that. "I think it's something he at least always had his eye on," says Joe Chronic, a 26-year veteran and the current holder of Compton's old job as chairman of TWA's pilot union.

BOX SCORES. Compton's ascent at TWA may not be over, either. "Bill has all of the qualifications" to be CEO, says Gitner, who co-founded People Express and who was part of the executive team that couldn't save Pan Am in the '80s. "It has been very pleasing to me to see how quickly he has picked up the man-

dismal on-time flight performance had to be their first priority. In early 1991 Compton chaired a group of employees that identified a dozen major reasons the flights were so often late. The culprits ranged from TWA's aging fleet—its older planes require frequent repairs that cause delays—to the fact that virtually any ground crew member was authorized to hold up a flight, no matter how trivial the reason. Careful always to talk about safety first—Flight 800 had crashed just months before—Compton traveled the country, convincing employees of the ir-

ABCDEFGHIJKLMNOPQRSTUVWXYZ
JKLMNOPQRSTUVWXYZ
STUVWXYZ

It will be a glorious day when all letters receive equal treatment, whether printed, faxed, copied, or scanned.

tance of a reliable schedule and gathering ideas on how to improve. Now, employees receive daily reports on on-time performance—and only station manager at each airport may d up a flight. Moreover, departures no longer delayed to ensure connections with incoming planes. While it may strand a few passengers, it's hundreds more to their destinations on time by preventing the entire system from running late. But there's still work to be done. A tough test in the St. Louis hub that caused many flights to be delayed has sent TWA back down to fifth place in on-time per-

while bantering with his 34-year-old co-pilot, Joe Tersteeg, whom he had met just that day.

Employee relations are probably the trickiest part of Compton's new job. Only two years after he was serving as the pilots' appointed advocate, he finds himself as the executive whom management's labor negotiators report to. That has strained Compton's friendships with some pilots, they say—and the toughest test is yet to come. The company's negotiations with its unions, which began last fall, will not be easy. After 15 years of concessions to keep the company afloat, TWA employees are paid far less

As Flight 177 approaches the Sierra Nevada range, it's easy to put such thorny issues aside and appreciate the joys of flying. There are no clouds, and the cockpit has a 180-degree view of the mountains that separate Nevada and California. The sun's glare reflects off lakes dozens of miles away. Best of all, gentler headwinds have helped make an on-time arrival start to seem possible. "This must be a nice change of pace from the stuff you deal with," co-pilot Tersteeg says. "This," Compton replies, "is like playing hooky."

Touchdown comes at 1:50 p.m. Even with a short wait on the runway, the

Happy man. "This," he says, "is like playing hooky"

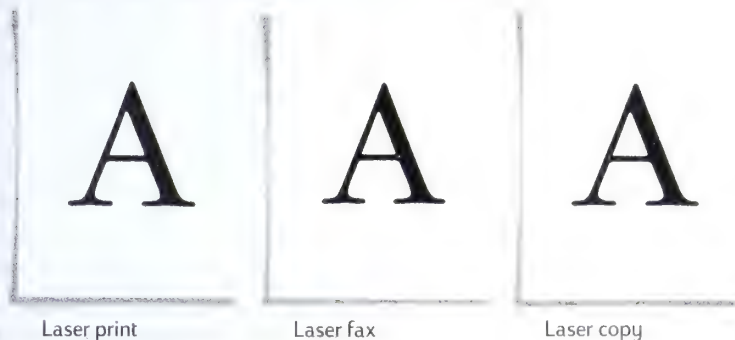
formance this year. "We had a good start, but now it's been more spotty," says Chronic.

HIGHEST TEST. So every flight becomes a miniature battle to win back the confidence of travelers who grew fed up with missing meetings because of TWA. "It got to the point in 1995 and '96 where I didn't wear a TWA T-shirt in my neighborhood," says Compton with a laugh. "I was afraid I'd get rocks thrown at me." With Flight 177 on autopilot, he has to chew on the same lunch that passengers are eating back in coach

and have less generous benefits than their counterparts at other airlines. The maximum that a pilot of an MD-80 can earn, for example, is \$103 for each hour spent in the air, vs. an industry average of \$160. Flight attendants, who often wander up to the cockpit when Compton is flying to plead with the boss for a better contract, have it worse, earning in the mid-\$20,000s even with seniority. TWA agrees its workers need a raise, though a fight is likely over how big it should be. Still, both sides say they're confident they'll strike a deal by the summer.

plane taxis into the gate just five minutes behind its scheduled 1:52 arrival, qualifying it as "on time." Compton's day, of course, isn't over. He will head back to the crew hotel, call the office in St. Louis, answer mail from employees, and review revenue projections. After all, wind and air-traffic control may have allowed Flight 177 to land nearly on time, but 254 other TWA jets came in late that day. On each one, he worries there may be some passengers who have decided they're fed up with TWA.

By David Leonhardt at 31,000 feet



The All-in-One HP LaserJet 3100

Laser Printer
Laser Fax
Laser Copier
Scanner



*Estimated U.S. retail price. Actual price may vary.

The sharpness, clarity and precision of HP LaserJet technology is now available in an all-in-one unit. HP LaserJet 3100 gives you professional, 600 dpi black and white documents at impressive speed. It even performs multiple tasks simultaneously. All with the dependability you'd expect from Hewlett-Packard. Priced around \$699*. For more information visit www.lj3100.com

**hp HEWLETT
PACKARD**
Expanding Possibilities

'THERE'S TOO MUCH DAMN CAPITAL OUT THERE'

Are eye-popping prices signs of a property crash? No—but a soft landing is likely

Are the good old days in commercial real estate getting a little too good? For the past three years, the market has wowed property investors and buried the nightmarish memories of the early 1990s, when foreclosures and bankruptcies reigned.

But now there are worrying signs that the industry has reached a peak—or soon will. Like the seasons and the stock market, real estate has cycles, particularly in the capital-intensive commercial arena: offices, hotels, retail outlets, and industrial space. As many pros see it, the market is overheated and due for a correction, albeit nothing like the early-'90s catastrophe. "There's too much damn capital out there," says Lewis M. Goodkin, president of Goodkin Consulting, "and too much optimism."

The industry is cruising on a high-octane mix of a hot economy, modest interest rates, and low office vacancy rates in many major cities. Downtown Manhattan has 12% office vacancies, about half the 1991 rate, as Wall Street activity has exploded. Midtown Manhattan has a tight 8.1% vacancy rate, making good space hard to find. Since very little construction took place during the last bad period, the recent surge in demand has produced a squeeze that has sent rent prices skyward.

BIDDING WARS. Remember how it wasn't supposed to be this way? Futurists once said telecommuting would render the need for additional office space irrelevant. Well, the current boom shows that, for now, face-to-face office environments are still a desired commodity. And the cash is out there to buy it. Real estate investment trusts (REITs) and other big players are flooding into the market with capital aplenty.

The question: Is it too much? A spell of interest-rate hikes and an economic slowdown could mean trouble as tenants shrink their space needs and rents plummet, leaving generous buyers with half-empty buildings and holes in their balance sheets. Even now, a good number of recent deals are looking pricey

(table). Take the Embarcadero Center, a landmark office address in San Francisco's financial district and among the highest-priced assets on the West Coast. Owners Prudential Insurance Co. and David Rockefeller are auctioning the five-building complex off with at least three ardent REITs bidding at prices insiders say exceed \$300 per square foot. That's up 50% from what local observers say the complex would have fetched two years ago. It may be the classiest trophy around. Yet paying such a high price would seriously erode yields from rent, warns Gerald W. Haddock, chief executive of Crescent Real Estate Equities Co., which dropped out of the bidding.

Another sign that the good times are waning comes from the performance lately of REITs, whose market value has almost quadrupled since 1994. REITs, publicly traded companies that own and manage pools of properties, are this decade's answer to small investors' desire to be landlords. Until recently roaring along—at a 19% pace in 1997 and 36% in 1996 (table, page 82)—the REITs' total rate of return, which encompasses stock appreciation and dividends, took a disheartening

REITs turned in a disheartening first-quarter dive.

"They're paying too dearly for properties," says one analyst



e in 1998's first quarter, posting a 44% showing. Says Frederick S. Carr, principal of the Penobscot Group research firm: "They're paying too dearly for properties, and the market is beginning to find that out."

The intrinsic problem for REITs is somewhat like that of a shark:

They have to move forward or founder. By law, they must pay 95% of their taxable earnings in dividends to shareholders. As a result, they must keep tapping Wall Street for funds and contin-

ue buying property to sustain growth. REITs are racing big private investors and pension funds for acquisitions. That could lead to mistakes. Carr and others hope returns will improve somewhat by next year at a more sustainable return in the low teens, as rent hikes drive cash-flow growth. Still, real estate investing is clearly no longer the slam-dunk it has been and requires careful navigating (page 82).

BURNED. Despite all the nervousness, however, hardly anyone thinks we're in for a reprise of the last gut-wrenching cycle. Rather, the industry may be headed for a soft landing. Or perhaps a mild slump in two to three years.

Property investing nowadays is nothing like that in the orgiastic 1980s, when heedless overbuilding led inevitably to the reckoning of the early '1990s. A decade ago,

a project's economics often were an after-thought. Real estate tax shelters, since abolished, funded construction no one wanted to lease, leading to helpful paper losses. Cowboy savings and loan operators threw money at dubious deals out of ill-considered optimism and sometimes to aid cronies.

Burned so badly not very long ago, investors in the current boom aren't as giddy as they were in the '80s. "Almost every new office building announced triggers hand-wringing over 'are we doing it again?'" says M. Leanne Lachman, managing director at Schroder Real Estate Associates, institutional asset managers. Construction figures illustrate the relative caution that is today's watchword. Look at offices, the largest commercial sector: According to The McGraw-Hill Companies' F.W. Dodge Div., new space weighed in at 184 million square feet in 1997, double the 1992 performance, but nothing like the 350 million peak in 1985. While Dodge projects a healthy 11% increase for 1998, that's nothing like the torrid

SKY-HIGH: A SAMPLING OF PRICY DEALS

PROPERTY	SELLING PRICE IN DOLLARS PER SQ. FT.	ACQUIRER
CHRYSLER BUILDING (N.Y.)	150	Tishman Speyer
EMBARCADERO CENTER (S.F.)	300*	Several
FOX PLAZA (L.A.)	360	Davis Cos.
GENERAL MOTORS BLDG. (N.Y.)	500*	Several
HOTEL DEL CORONADO (S. DIEGO)	475,000**	Lowe Enterprises
PRUDENTIAL CENTER (BOSTON)	280	Boston Prop.
SEARS TOWER (CHI.)	270	Trizec-Hahn
WASHINGTON HARBOUR (D.C.)	300	Crescent

*Est. **Per room

DATA: BUSINESS WEEK, INSTITUTIONAL REAL ESTATE INC.

32% growth last year. This time, far fewer buildings are going up "on spec"—without tenants already signed up.

Overall, the rise of public markets for property investing keeps the party from getting too out of hand. With wads of cash available from investors, these companies put mostly equity into building purchases, as opposed to the debt-loving 1980s bunch that had trouble meeting interest payments once the economy dipped. The increasing role of REITs and their ilk spreads the risk, which means less of an impact if a big project fails. And although the prices some are paying may be questionable, REITs and other publicly owned groups at least have more real estate expertise than many of the last decade's dealmakers.

Securities laws, further, require publicly traded real estate vehicles to report detailed information on properties they are buying. "There is real research," says Thomas Barrack, CEO of real estate fund Colony Capital. "There are real businesses with real executives and real programs."

At this stage, there are no obvious disasters happening. But everyone has opinions about apparent excess, whether so-and-so overpaid for this property or that. The purchase of the Ritz Carlton Laguna Niguel hotel by Security Capital for \$500,000 a room has raised eyebrows. Ditto for the TrizecHahn real estate company's \$804 million payout for Chicago's Sears Tower last December. The spate of massive casino-hotel projects under way in Las Vegas gives



rise to doubts that they'll attract enough gamblers to support them. Only a true economic downturn will determine how wise or foolish these investments are.

As always in real estate, local peculiarities drive supply and demand. In San Francisco, tough zoning laws make building a new edifice tough. Result: The city's office vacancy rate is a mere 4.1%, making possession of office space a sure cash cow. That accounts for the frenzied bidding for the Embarcadero Center. On the other hand, the consolidation following Charlotte (N.C.)'s NationsBank merger with San Francisco's BankAmerica may result in a big-time

loss of BofA jobs and empty office space.

If the economy sags in the next few years, the office market would be particularly vulnerable. That's because many 10-year leases, signed in the waning days of the last boom, will come due. With layoffs lowering demand for space, tenants would enjoy the upper hand. Even if the economy keeps chugging along, a mass of leases expiring all at once is bad news for any landlord. "We'll see a crunch around 2000," warns Michael L. Evans, national research director of the Ernst & Young Kenneth Leventhal consultancy.

There's no predicting macroeconomics

that determine the commercial market fate, along with that of its sister, the residential market, where new home sales in 1997 were at a 19-year high. Although the current boom could roll over for a few more years, it's significant that a lot of savants think an end is in sight. Says Jack Rodman, an E&Y Leventhal partner: "I'm telling my clients to sell U.S. real estate and invest in Asia." In short, no terror but plenty of nervousness.

By Larry Light in New York and Kathleen Morris in Los Angeles, with Edward C. Baig in New York and bureau reports

REAL ESTATE: WHERE THE BARGAINS ARE

After last October's swoon in stocks, did you move some of your portfolio to something steadier, like real estate? If you did, you might be wondering if you'd made a mistake. While the Standard & Poor's 500-stock index has surged 12% this year, real estate investment trusts have sunk 4.7%, with real estate mutual funds right behind. But don't abandon ship. Sure, commercial properties are changing hands at eye-popping prices again. But pros say shares of REITs remain undervalued, especially compared with corporate stocks. "People are worrying about REITs but buying Internet stocks at 20 times no earnings," says G. Kenneth Heebner, who runs stock and REIT portfolios for CGM Mutual Funds group in Boston.

STILL CHEAP. The numbers bear him out. While the S&P trades at 6 times book value and 23 times the next 12 months' estimated earnings, REITs are selling for an average of 1.2 times book and 11 times cash flow. They're also yielding an average 5.75%, versus the S&P 500's 1.3%. And Fidelity Investments expects REIT cash flow to grow an average of 15.7% this year, twice that of the market. "REITs are cheaper than any time in the last 12 years," says Barry Greenfield, Fidelity's chief of real estate securities investment. Still, the easy pickings are over. Judy K.



THE ST. REGIS: Posh hotels may be sound investments

Hedin, a Jefferies & Co. senior vice-president, says REIT shareholders should expect returns "somewhere in the mid-teens," down from more sizzling gains of the past two years.

The trick is to pick REITs, such as Starwood Hotels & Resorts or Equity Office Properties Trust, that boast strong positions in hard-to-build-in markets. Starwood's clutch of deluxe hotels, including Manhattan's St. Regis, are fortified by high barriers to competition. "A

high-end hotel costs \$50 million or \$60 million to put up and has a long construction period," Hedin notes. "A limited service hotel—a Quality Inn or a Comfort Inn—takes only \$5 million to \$8 million and a few months." REITs that focus on low-end mo-

tels, such as Jameson Inns Inc., are expected to lag their tonier counterparts.

You also have to "be very specific in knowing what markets you want to be in," says David A. Kruth, an Alliance Capital Management real estate portfolio manager. He sees continuing strength, for example, in apartment REITs on the West Coast, specifically in Seattle, and in San Francisco, Los Angeles, and San Diego, which enjoy high demand

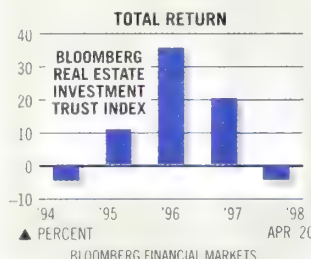
but have a limited supply of new units. Bay Apartment Communities Inc. is well positioned in California, Kruth notes. Its pending acquisition of Avalon Properties Inc. will pick up apartment complexes in enviable locations in the Northeast. Avoid the Southeast, where such cities as Atlanta are overbuilt and longtime players, including Merry Land & Investment Co. figure to be fighting off rivals. And shun factory outlet REITs

in favor of regional mall operators that are continuing to consolidate. The trend is giving owners such as Simon DeBartolo Group more power to raise rents.

You may not earn 30% on a REIT in 1998, but this year's losses may prove short-lived.

By Robert Barker

REITs RETURNS ARE SLIPPING



ou're on a conference call

ou start to daydream about last night

and don't hear a single word.

Fortunately, we offer audio playback.

©1998 MCI Telecommunications Corporation. All rights reserved.

networkMCI conferencing 1-888-239-2368
Internet Conferencing • In-house Meetings
Virtual Conferencing • Video Conferencing

It's okay. It happens. That's why networkMCI Conferencing® offers audio playback and written transcripts. We also offer language interpretation. Meeting Managers. Even broadcast fax services to distribute agendas or minutes to participants.

And by adding networkMCI NET Conferencing™ to audio conference calls, you can use the Internet to simultaneously view documents with participants.

And you don't have to be an MCI long-distance customer to use our services.

Still listening? Call 1-888-239-2368, and you can enter to win a Polycom SoundStation™ speakerphone, or visit nmc.mci.com.

Where necessary. Void where prohibited. Open to U.S. residents only. Three separate sweepstakes end 6/30/98, 12/31/98 respectively. For Official Rules, by which entrants are bound, call 1-888-239-2368 or log onto the <http://nmc.mci.com>.



DEALMAKERS

'THE GRAVE DANCER': NOW THE WORLD'S HIS STAGE

Sam Zell looks at the REIT revolution he helped create

Iconoclastic, brash, hugely successful—Chicago financier Samuel Zell is all that and more. Originally, he was dubbed “the grave dancer” for his purchases of undervalued corporate assets such as radio stations and drugstores. Now Zell is among a handful of innovators who have been assembling huge packages of commercial real estate properties into real estate investment trusts. His office, apartment, and prebuilt-home REITs are the industry's biggest. He is considering a private international fund to be converted into a REIT. Just before Zell took off with a dozen friends—the “Zell's Angels”—for his annual motorcycle tour, he talked with *BUSINESS WEEK's* Chicago Bureau Chief Richard A. Melcher.

Q: Real estate has always been plagued by violent cycles. What's different this time?

A: I think there's a revolution. The public market has become the ultimate source of capital for real estate and the benchmark for the industry. What I'm talking about is a worldwide movement toward liquidity in real estate. You're moving from direct investment—you buy a building—to indirect, like buying stock on the New York Stock Exchange. That creates discipline in an industry that historically had little or none. And there's another factor: You have all kinds of information that was never available before. You can find out how much it costs to rent an apartment in any market in the U.S. Information dramatically reduces volatility.

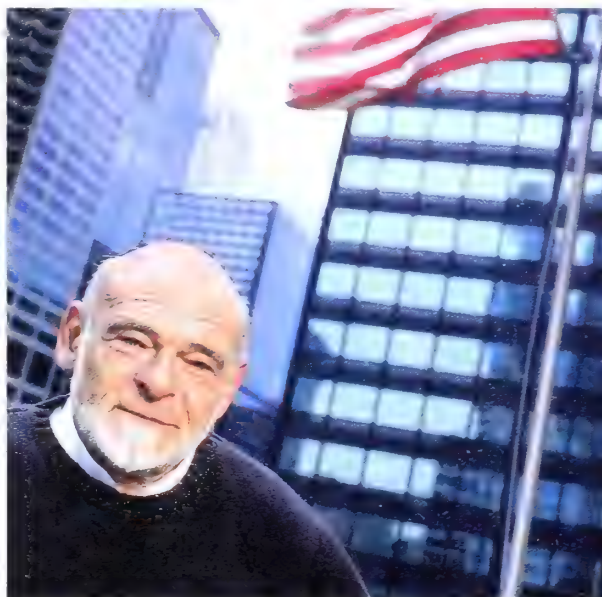
Q: Some analysts say real estate is overpriced.

A: Everybody is talking about it being the end of the world. We're dealing with paranoia from [earlier periods of] massive oversupply—that the real estate investment world to some ex-

tent is like a game of musical chairs.

Q: The market cap of REITs has gone from about \$5 billion in 1992 to about \$160 billion to \$170 billion. Will that continue?

A: I think that when this year is up total returns are going to be anywhere



“What I'm talking about is a [global] movement toward liquidity in real estate. That creates discipline...”

SAMUEL ZELL

Chicago financier

from 12% to 20%. For the foreseeable future, over the next 10 years, it's probably going to compound at a 30% to 40% rate, both on the equity side and debt side. And we've only converted about 10% of the commercial real estate portfolio. There's still 90% of the world to equitize.

Q: Real estate has always been a local business. Now, the REIT industry is building national groups. Are there economies of scale?

A: We've gone from a collection of as-

sets to an integrated network. That's where you really produce optimum results. What do I mean? Obviously, national purchasing, insurance. In Seattle when we had 3,000 units, it used to cost us \$150 each to have them painted. Now we have 12,000, and it costs \$100

Q: What international markets are interesting?

A: I can start with Western Europe where there still are significant privatizations and unbundling from state-owned banks. In Eastern Europe and the former Soviet Union, the perceived risk is greater than the reality. We think Asia is very interesting, especially Japan. If they ever get their act together and stop trying to overregulate everything, it could be very attractive.

I'm most bullish on Latin America. It is going to outpace the rest of the world in the next 10 years. Chile, Brazil, and Argentina are all creating private pension funds providing capital for real estate. Capital is flowing, and I believe it is logical to create a worldwide real estate company that effectively arbitrages risks, returns, and asset classes all over the world.

Q: You're chairman of nine public companies. How do you balance it all?

A: First, every company I'm involved with has a CEO who takes day-to-day full responsibility for his company on an ongoing basis. And my contribution is: 1) to be on a sounding board; 2) to be strategic and directional thinking; 3) where appropriate, open doors, create access, and participate where my particular talent or experiences are relevant. We're great believers in zero-based thinking—you start every day, and if you don't sell it, then you've bought it.

Q: You've often said you like to test limits. Where do you go from here?

A: It's all about painting on an empty canvas. I have an opportunity to materially influence the reshaping of a giant industry—an industry that represents 12% of the GNP in this country. I wrote [retiring American Airlines Chairman] Bob Crandall, who's my friend, and said: “You know what extraordinary opportunity you had? You had an industry with a blank canvas and you painted it.” That's the opportunity I have in real estate.

BY GENE G. MARCIAL

THESE OIL RIGS ARE SITTING DUCKS

Why are some money managers buying Global Marine (GLM), whose stock has slid downhill lately? "has become a sitting duck," says a head of a New York hedge fund that invests chiefly in oil-related issues. He says the decline, the result of management woes and a drop in oil prices, opens Global Marine up to a takeover.

An international oil-and-gas contractor with 31 offshore rigs, "Global Marine is a play on the resurging demand for rigs—and an attractive buyout target," argues this pro. The stock hit 35 on Nov. 5, dropped to 19 in January, and has since crept up to 23.

One outfit rumored to be interested is Santa Fe International, the leading contract driller. Santa Fe, owned 66% by Kuwait Petroleum Corp., "has the critical mass and pockets" for a deal, notes one oil stakeholder. Santa Fe's fleet would best fit with a company with premium rigs such as Global," he says. Santa Fe spokesman declined comment.

What's Global Marine worth? In a bid, 35 to 40 a share, figures the hedge-fund manager, based on recent data. One factor expected to persuade management to do a deal is the probability of finding a successor for CEO John Luigs, 65, when he retires. Analyst Kevin Simpson of Merrill Lynch thinks that, on fundamentals, Global Marine should climb back to the mid-30s in the next 12 to 18 months. For 1998, he expects \$2.05, up from 1997's \$1.58.

Santa Fe operates mainly outside the U.S., with 26 marine rigs and 28 rigs in 16 countries. Acquiring Global Marine would give Santa Fe a market in the U.S., chiefly the Gulf of Mexico. With Global Marine's

premium fleet, and as the region's largest provider of management services, it has benefited from this resurgence, notes Norman Rosenberg of Standard & Poor's. Global Marine didn't return calls.

IGEN MAY BE SET TO SHINE AGAIN

For some stocks, no news can be bad news. That's what happened to IGEN International (IGEN), whose electrochemiluminescence (ECL) technology is used in immune tests and nucleic-acid probes. IGEN's stock, which rocketed from 11 in October to 45 on Apr. 2, had fallen back to 34 by Apr. 29. Investors had expected the company to sign up a strategic partner for a new product, and the lack of news about that caused investor dismay.

Not to worry, say some who have bought. George Soros recently upped his stake from 5.3% to 8.7%. "There has been speculation that negotiations with potential partners haven't been going well," notes Herriot Tabuteau of NationsBanc Montgomery Securities. "Our sense is the opposite. Things are proceeding well, and we view the decline as a buying opportunity."

IGEN's ECL system attaches a label to a biological substance that, when electronically stimulated, emits a light detectable during diagnostic tests. IGEN's new miniaturized product, ECLM, has reduced ECL to the size of a deck of cards and can be plugged into any diagnostic device. A large medical-device maker is expected to sign on as partner for the new product. Whispers are that the partner and potential licensee will take a stake in IGEN.

Tabuteau values its core ECL product at 44 a share and the small ECLM technology at a further 40. Conservatively, he says, the stock could hit 70 in a year. George Migausky, IGEN's chief financial officer, says: "We are in discussions with a number of potential partners and expect we'll have one or two deals this year." IGEN's current partners are

biggies in health care: Pfizer (page 92), Perkin-Elmer, Agouron Pharmaceuticals—and Roche/Boehringer Mannheim, with which IGEN has a royalty dispute.

COVENTRY AIMS TO SNARE AIRLINES

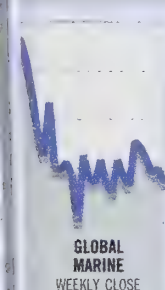
Not only is Coventry Industries (COVN) a microcap stock but it is also a maker of such prosaic items as fire sprinklers and power-transmission systems. Soon, however, the company could become an airline. According to several investors, Coventry is in talks to acquire three small, low-fare carriers—among them Kiwi International Holdings, parent of Kiwi International, which flies from Newark International to such cities as Atlanta, Boston, Chicago, Las Vegas, Orlando, Palm Beach, San Juan, and Tampa.

With Kiwi, Coventry's revenues will jump from an estimated \$20 million this year to about \$100 million, according to one investor. Manny Shulman, president of Shulman Associates, a merchant bank in Florida, says if the deal materializes, Coventry will convert Kiwi into a chartered airline, concentrating on a few cities, such as Las Vegas, that have heavy traffic. Coventry's two other targets fly routes in the South, says Shulman. Those two have combined revenues of \$35 million, he says.

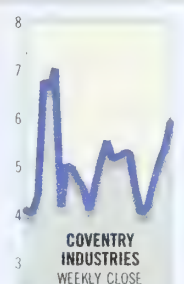
Kiwi's greatest asset, he notes, is its experienced operational capability. "It has a perfect five-year safety record," he adds, and has consistently been ranked near the top in consumer satisfaction. Twice grounded by the Federal Aviation Administration for rule violations, Kiwi was saved from bankruptcy in July, 1997, when it was acquired by an investor group headed by Charles Edwards. Coventry's stock, which hit a high of 12 a share in April last year, closed at nearly 6 on Apr. 29, 1998.

Currently in the red, partly because of a restructuring, Coventry is expected to earn about 75¢ a share next year—if Kiwi is acquired. Coventry Chairman Robert Hausman declined comment.

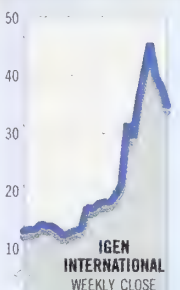
ON A SLIPPERY SLOPE



RESOLVED TO GET OFF THE GROUND



A DIP CAUSED BY LACK OF NEWS?





THE AXMEN: Malone and Hindery (far left) had to do some savage cost-cutting

CABLE TV

CABLE'S COMEBACK KID

TCI's John Malone is back—and ready for the digital future

John C. Malone looks a little grayer and a touch stooped. It has been two rough years at the helm of Tele-Communications Inc., battling falling subscriber rolls, mounting debt, and the anxiety of investors who feared the chairman of the No. 1 cable company had lost his way. But as he strolls the halls of Denver's Convention Center at a TCI-sponsored shindig for stock analysts and investors, Malone attracts a cluster of admirers. "Hey, you guys act like I've been away," he chides.

Now, Malone is back. After some savage cost-cutting that axed more than 2,500 employees and scaled down plans to lay fiber-optic wires, the once unwieldy cable giant is in fighting trim again. In the year just ended, TCI reported cash flow of \$2.97 billion, a 30.7% increase from 1996, on \$7.6 billion in revenues. In early April, Moody's Investors Service raised TCI's debt to investment-grade status. At the moment, no cable company is better poised to benefit from the industry's delayed but fast approaching digital future: Furious dealmaking has given TCI all or partial ownership of as many as one-quarter of the nation's 65 million cable subscriptions. "I'm hard-pressed to come up with another company that has turned around so quickly," says Salomon

Smith Barney analyst Spencer Grimes.

Like TCI, most of cable is on the rebound. By the end of 1998, as many as 47% of the nation's subscribers will have two-way fiber-optic wiring in their homes, giving cable the fastest pipeline to deliver interactive services such as pay-per-view movies, electronic shopping, and data services. The prospect of a captive audience with living rooms reached by high-speed links lured the likes of Microsoft Corp. founders William H. Gates III and Paul Allen into investing in cable. It also has prompted a doubling of cable stock prices in the past year. By 2003, the rush of digital services will give the industry cash flow of \$26 billion, says Salomon's Grimes, more than double its expected \$12.6 billion in 1998.

No company benefited from cable's new allure more than TCI, whose stock has nearly tripled in the last year to 30% on Apr. 28. Once derided for his declaration of a 500-channel cable universe, the TCI chief is negotiating from strength once more. In February, he played software giant

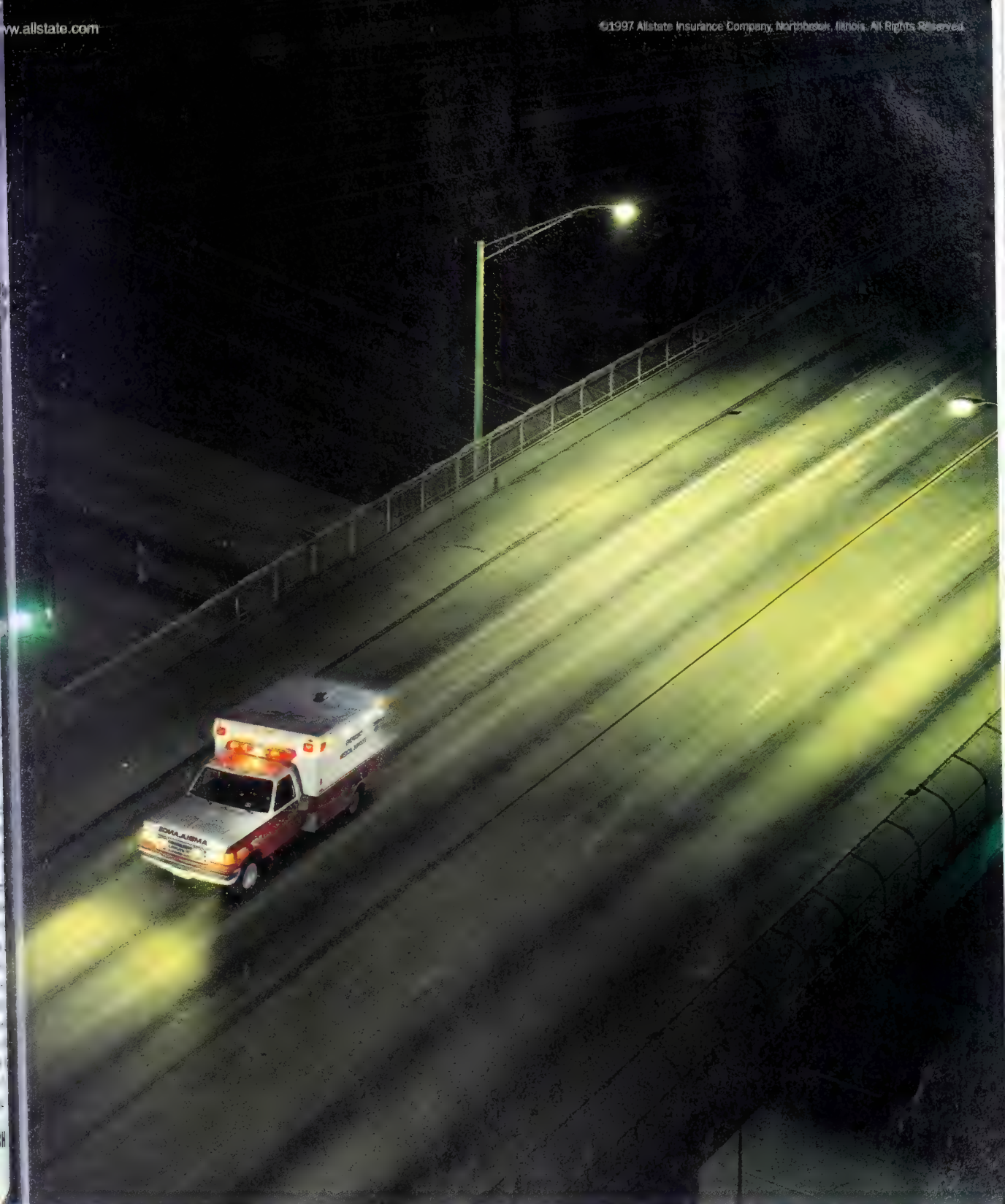
Microsoft and Sun Microsystems Inc. against each other and won concessions for the new generation of digital boxes that will reach consumers late next year.

Taking advantage of cable's new popularity, Malone has invited "anchor tenants" to help defray the cost of the million boxes TCI has ordered from General Instrument Corp. In return for the exclusive right to supply their services, TCI subscribers, BankAmerica Corp. and Intuit Inc. are paying an estimated \$50 the \$300 cost for each TCI box. Now the cable company is said to be looking for other such deals, including an estimated \$1 billion from AT&T, which wants to utilize cable's entry to the Internet and launch local phone service.

"SMARTEST THING." Putting TCI back in such a commanding position took some doing. As recently as late 1996, Malone was breaking the bad news that the company had lost 70,000 cable subscribers and would show only a 3% increase in earnings before interest, taxes, depreciation, and amortization—less than a third of analysts' projections at the time.

Then Malone brought in longtime co-exec Leo J. Hindery as president in February, 1997. Hindery quickly reduced planned rate hikes and nixed a nationwide service center, dividing TCI's operations into six separate regions to provide better service and marketing clout.





Who's picking your kid up after the prom?

Unfortunately, some kids drink on prom night. So please plan alternate transportation, or your local hospital may do it for them. To help



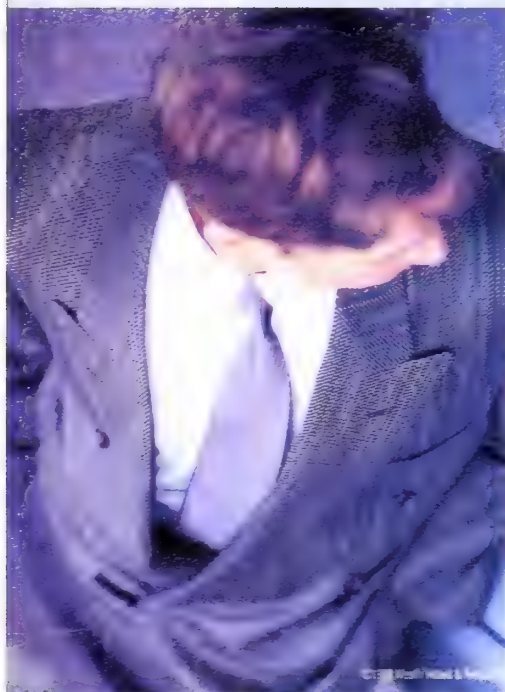
keep your teen safe, see your Allstate

Agent or call 1-888-ALLSFTY. **Being in good hands is the only place to be.™**

Allstate®
You're in good hands

you

are steps from world-class shopping.
are minutes from famed museums.
are about to duck out of your meeting.



who are you sleeping with?



THE WESTIN

GALERIA PLAZA

Mexico City

You like mixing business with pleasure.
You'll love The Westin Galeria Plaza.

Mexico City. Located off the Reforma Boulevard, The Westin offers Guest Office™ rooms that provide what you need to work productively on the road. Not to mention daily international newspapers and continental breakfast in our Executive Floor Lounge. Westin Premier® points and airline miles.

Choose your travel partner wisely.®

Call 1-800-WESTIN-1

www.westin.com

**Child-proof caps protect
those who can't read.
Medicine labels protect
those who can.**



Read your medicine label. It tells you all you need to know.
It's the first step to getting better.

© 1999 Johnson & Johnson
Consumer Products Company
All rights reserved.



Media

to the consumer. And to wipe \$4.5 billion in debt off TCI's balance sheet, Hindery put 3.8 million subscribers into 12 joint ventures with other cable companies. "Hiring Leo was the smartest thing John has ever done," says Gordon Crawford, senior vice-president of Capital Research & Management Group, which holds 8% of TCI's shares.

Hindery is as unlike Malone as could be. Previous TCI brass were often brusque with investors, the press, and even fellow cable execs, but Hindery charms outsiders. When Malone and News Corp. Chairman Rupert Murdoch locked horns over Murdoch's plans to compete via satellite, Hindery quietly negotiated the truce by which News Corp. contributed its fledgling AskyB service to the cable-run Primestar consortium in exchange for carriage of his programming. Then Hindery traded TCI's 800,000 New York-area subscribers for a one-third interest in Cablevision System Corp. and also won the rights for TCI's 50%-owned Fox Sports Network to televise the New York Knicks and Rangers. **NET MERGER?** With Hindery at the controls, Malone was freed to focus on strategy and structure complex deals. Malone now has a sizable constellation of holdings in everything from AT&T to General Instrument to cable operators Time Warner and Cablevision. Malone has also been working behind the scenes to negotiate a merger between TCI's 40% controlled Internet service @Home and Time Warner Inc.'s Roadrunner, the ble's other big Net service.

The latest joint ventures broaden TCI's reach into some of the largest markets whose subscribers have great buying potential, says NationsBanc Montgomery Securities analyst John Tinker. By yearend, predicts Tinker, the 1 million or so TCI customers with new digital services will generate \$262 million in new revenue and provide profit margins of 70%.

TCI isn't out of the woods yet. Its financial woes have put it behind in rolling out sophisticated technology. To catch up, it will spend nearly \$2 billion over the next two years to provide more of its customers with two-way interactive capability by 2000. Even so, as many as 40% of its customers, those in small communities, won't be getting as many channels as their urban counterparts.

Cable also has political battles to fight in Washington, and the newly ordered technology has yet to be put to the test. But Malone and Hindery, seeing the promise of new services and a rush of revenue on the horizon, have the giant at the ready.

By Ronald Givens in De



Where he looks, billions follow.

Last year, his company spent \$2.1 billion on outside vendors.

A lot of that was spent on companies just like yours. He found out about those companies in his business-to-business media, where he turns for credible, in-depth coverage of trends, new technology and the most critical issues impacting his business. We're **American Business Press**, the industry association for business-to-business information providers. Our members produce magazines, CD ROM's, Web sites, trade shows and other media reaching an audience of over 37 million. We'll show you how to use these media to get seen by the business leaders that matter most in your industry.

To learn more, contact Peter Shih today at 212-661-6360, ext. 308, or visit us at www.americanbusinesspress.com.



First Read of Decision Makers™

Let's talk about clients on two coasts

...I need all my files at both offices...

Let's talk about flight delayed.

...and in between.

Let's talk about popcorn.

...did I mention, I love movies?





Let's talk about your Gateway.™



When you call Gateway, we'll build a computer just for you. Karen said "I don't need a wimpy laptop, I need a desktop that travels." So we built her a portable with the power of a desktop. What can we build for you? Do you work in one place or all over the place? Do you need to give presentations on the fly? Write memos? Both? Want to watch movies? Play games? Call us, and...Let's talk about your Gateway.™

the ultimate copilot (Solo® 5100SE)

Want a lighter portable that still works like a heavyweight? This one's only 6.6 lbs. and 1.6" thin and comes with:

- 14.1" Active Matrix Color Display
- An Intel® Pentium® II Processor at 233MHz with 512K Cache
- 32MB of RAM (*for smooth presentations*)
- 2GB Hard Drive (*holds all your files*)
- A modem (*for Internet access and e-mail*)
- An interchangeable CD-ROM and 3.5" Diskette drive
- Altec Lansing® Speakers
- Microsoft® Windows® 95 already loaded (MS® Windows 98 Upgrade Offer valid through June 20, 1998)
- And we back it all with Gateway Gold™ Service & Support for portable PCs

\$2999 As low as *\$104/mo.

Karen's portable desktop (Solo 9100SE)

Karen wanted a desktop PC she could use at two offices, so we built her a portable with:

- A 14.1" Active Matrix Color Display (*more viewable area than most 15" desktop monitors*)
- An Intel Pentium II Processor at 233MHz with 512K Cache
- 32MB of RAM (*to manage multiple tasks*)
- 4GB Hard Drive (*for extra storage*)
- A modem (*for Internet access and e-mail*)
- Microsoft Windows 95 already loaded (MS Windows 98 Upgrade Offer valid through June 20, 1998)
- A 4MB 3-D graphics accelerator and game port
- Altec Lansing Speakers

But she likes to have some fun too, so we added:

- A removable combo DVD-ROM and 3.5" diskette drive (*for movies, games and software*)

\$3899 As low as *\$135/mo.

Let's talk about your



Gateway

www.gateway.com

Cover Story

The New Era of

Lifestyle Drugs

Viagra and other blockbusters are transforming the \$300 billion industry

Viagra, Viagra, Viagra. TV shows are interviewing ecstatic customers. Newspapers and magazines are analyzing its cultural implications. Internet chat sites are spreading info on how to get it. Bars and cocktail parties are buzzing with jokes about it. But Viagra is more than just a blockbuster drug that treats a widespread sexual ailment. It represents a whole new class of drugs which will alter the lifestyle of millions, transform the pharmaceutical industry, and add vigor to the economy.

Pfizer Co.'s new impotence drug is barely a month into its debut, but already Wall Street analysts estimate that the medicine could easily hit sales of \$5 billion a year—even \$11 billion according to some optimistic projections. Demand is off the charts. NDC Health Information Services, a Phoenix-based market-research firm, says 206,246 prescriptions for Viagra were filled in the week ended Apr. 24, up nearly 70% from the prior week's number. "It's kind of a cultural phenomenon," crows Pfizer chief William C. Steere Jr.

VAST APPEAL. Sure, Viagra is a godsend for men with clinically diagnosed impotence, just as weight-loss drugs already available or coming to market can be a major health boon for the seriously obese. But what gives such drugs vast appeal is their ability to enhance the lives of people with less severe symptoms. Other drugs in the pipeline control everything from minor irritations like baldness and wrinkles to debilitating diseases such as arthritis, memory loss, and incontinence. "We may find targets for

hair loss, aging skin, all the lifestyle issues of the baby boomers," says Pfizer's Steere. Soon they'll be joined by drugs that could actually prevent the diseases of aging such as osteoporosis, heart disease, and some forms of cancer (table, page 94). The demand will be fueled by demographics. "The aging baby boomer population wants to remain young and is very willing to use drugs that counter some of the ravages of aging," says independent pharmaceutical analyst Jack Lamberton.

Ultimately, the new lifestyle drugs could turn the pharmaceutical industry into an engine of growth for the economy. Right now, worldwide spending on pharmaceuticals is running at about \$300 billion a year, with the U.S. accounting for some one-third of the total. At that level, it's a lot smaller than the high-tech sector. But strong demand combined with new technology is a formula for a pharmaceutical economic boom in the next decade that could rival the high-tech explosion of the last 10 years. At a time when

many people lay out \$20 to \$30 a month on cable television, it seems likely they'll pay as much for a lifestyle drug. That enormous spending could double the size of the drug industry over the next 10 years, sending ripple effects through the entire economy.

Investors are already placing bets. Pfizer is now trading at 54 times earnings, the consensus for expected 1998 earnings is above both Microsoft Corp.'s multiple of 32 times earnings and the Pacific Exchange technology index multiple of 49. Suddenly, drug stocks are per-

Pfizer's Winning Formula

Viagra is just one of a host of hot products driving sales.....page 96

Is This Rx Necessary?

When the issue is enhancing a lifestyle, who should pay?.....page 98

Danger: Read the Label

Doctors are prescribing drugs for unapproved uses.....page 100



ing like those Wall Street darlings, the high-tech stocks. "The drug industry is hitting on all cylinders," says Cowen & Co. analyst Stephen M. Scala.

The whole focus of the industry is undergoing dramatic change. Until recently, most research was aimed at curing life-threatening or severely debilitating illnesses. But the new megadrugs target medical conditions that are somewhere between painful and uncomfortable. Treatment could even be considered optional for

women—an additional 29 million potential customers. Evista's annual sales, if approved for both purposes, could easily triple the \$1.2 billion it's estimated to reach by 2001 for osteoporosis alone. "This has really opened the door to the pharmaceutical industry to exploit preventive maintenance therapies for a whole range of diseases," says V. Craig Jordan, director of breast cancer research at Northwestern University.

This new class of drugs raises a lot of questions. Who will pay, for example. It's not a hard call for an insurer to pony up for a drug that may prevent osteoporosis, but not so clear when an ailment's biggest impact is on one's lifestyle. Many insurance companies are already balking. And, although the side effects produced by medicine are worth the risk when the diseases are life threatening, the calculus is different when the outcome is merely lifestyle-enhancing.

Even if insurers refuse to reimburse for Viagra in some cases, it may not matter to far of the little blue pill. They're likely to pay for it themselves. "Viagra special," says Salomon Smith Barney analyst Christina Heuer. "It's the epitome of a brand new market."

"AMAZING." How big is the market? Who knows? It's not clear how many men may prove to be regular customers—or women, for that matter, who may also decide to try the drug. Heuer expects Viagra to soar to \$2 billion in annual worldwide sales by 1999, rivaling the year-old cholesterol reducer Lipitor, jointly marketed by Pfizer and Warner-Lambert Co., as the most explosive drug launch ever. Cowen & Co. analyst Scala, who conservatively estimates that Viagra sales will reach \$2.5 billion by 2001, has laid out scenarios in which the drug could produce as much as \$11 billion in annual sales by the year. In fact, if just 16 million people use it once a week,

Cover Story

some. Impotence is only the most sensational of these so-called lifestyle conditions. Hundreds of millions of dollars are also being poured into efforts to discover safe and effective treatments for obesity, anxiety, memory loss, depression, incontinence, and arthritis. Cures seem remote. But drug companies are working up medicines that may hold these ailments in check if taken regularly for a lifetime—the surefire ingredient for a huge-selling drug.

OPEN DOOR. The industry hasn't given up on research into more serious diseases. But for these diseases, an emphasis on prevention could generate megabucks as well. It's not a very hard sell to get someone to take a pill every day for decades if it could prevent, say, cancer, stroke, or Alzheimer's. Eli Lilly's Evista is the preventive model every drug company would like to emulate. The drug, which blocks cancer-causing estrogen in the breast while increasing bone mass, won approval last December for the treatment of osteoporosis, a weakening of the bones that affects 18 million women in the U.S. Now, recent clinical data indicate the drug may also prevent breast cancer in high-risk

What's Viagra Worth?

Pfizer's 1997 sales came to \$12.5 billion and its earnings per share were \$1.76. Here's what Viagra could add to sales and earnings in 2001 under varying assumptions of usage.

AVERAGE DOSES	MILLIONS OF USERS					
	10		13.5		16	
	SALES*	EPS**	SALES*	EPS**	SALES*	EPS**
TWICE A MONTH	\$1.82	\$0.35	\$2.50	\$0.50	\$2.90	\$0.59
ONCE A WEEK	3.64	0.75	4.90	1.00	5.80	1.18
TWICE A WEEK	7.28	1.47	9.80	2.00	11.65	2.36

*Billions of dollars

**Earnings per share

DATA: COWEN & CO., BUSINESS WEEK

Redefining the Blockbuster

The blockbuster designation has typically been applied to drugs with sales of \$1 billion or more a year. But new medicines used by several million people. New drugs may make the old definition archaic.

Big-Selling Drugs Hitting the Market Now...

DRUG	MALADY	LAUNCHED	COMPANY	ESTIMATED ANNUAL SALES
VIAGRA	Impotence	1998	PFIZER	\$10 billion
LIPITOR	Cholesterol reducer	1997	WARNER-LAMBERT AND PFIZER	\$ 6 billion
ZYPREXA	Schizophrenia	1996	ELI LILLY	\$ 3.6 billion
CELEBRA	Arthritis	1999*	MONSANTO AND PFIZER	\$ 3.2 billion
VIOXX	Arthritis	1999*	MERCK	\$ 2.4 billion
REZULIN	Diabetes	1997	WARNER-LAMBERT	\$ 2.2 billion
EVISTA	Osteoporosis	1998	ELI LILLY	\$ 2.0 billion

*Expected launch

**2002

†BUSINESS WEEK ESTIMATE



sales could hit \$5.8 billion. But doctors say the average rate would likely be closer to a dozen times a month.

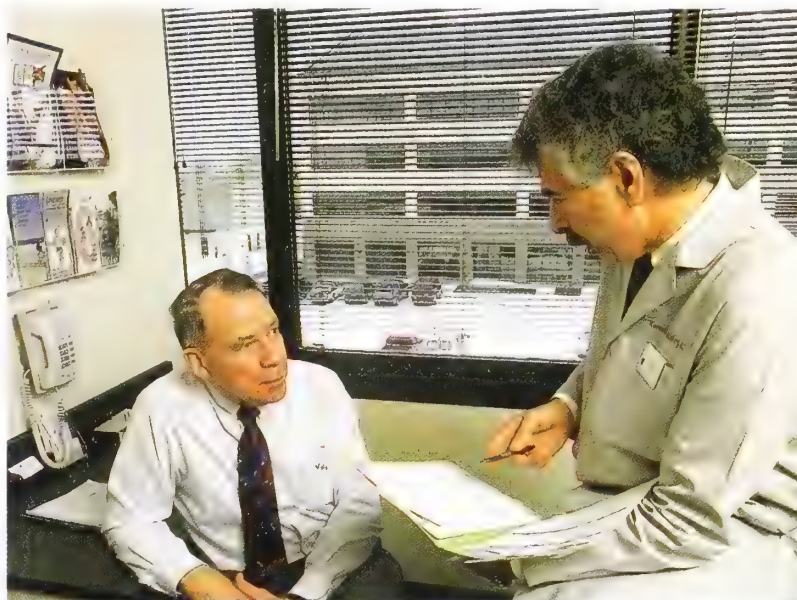
Medical experts say that a big part of that market is normally potent men who are looking for enhanced sexual performance. "This is clearly being prescribed to a very large number of people whose primary problem is that they don't along with their partner," says Dr. Sidney Wolfe, director of public Citizen's Health Research Group.

or millions of—perhaps as many as 30 million Americans, urologists estimate—who have suffered silently from the ailment that few doctors even talk about just a couple of years ago, the drug is a miracle. The \$10 billion industry for restoring potency may have been born through such ailments as diabetes, hypertension, anxiety, and even simple aging. "The feelings that were forgotten were," says a 63-year-old man who has been treated with it. "This is absolutely amazing, and I don't know how to say that."

Other competitors are already looking to improve on Viagra. The drug got its start as a potential angina treatment because it suppressed a key enzyme, facilitated blood flow to the penis. Industry executives say Pfizer rivals Eli Lilly & Co. and Bristol-Myers Squibb Co. are hard at work on similar compounds. Their challenge: to come up with medications that don't produce such unwanted side effects of Viagra as occasional headache, and less frequently, blue haze in the patient's vision. Many of the impotence treatments, in-

cluding Viagra, are also being studied to see what, if anything, they might do for women.

Viagra is sure to be sharing the impotence market soon. Schering-Plough is expected to enter the market in 1999 with Vasomax, a pill developed by Zonagen Inc. that blocks receptors in the penis that prevent blood vessels from dilating. In 2000, a joint venture of Abbott Laboratories and Takeda Chemical Industries Ltd. is expected to debut its



DRAWING CARD

Says Dr. Kenneth Goldberg (right):

"This drug will bring a lot of men into the office. We can pick up other medical problems"

so-far unnamed pill, based on a drug called apomorphine. Vivus Inc., a smaller contender, generated about \$129 million in sales last year with a less convenient—though arguably more effective—pellet inserted in the urethra. Marketing of the pellet started in January, 1997.

And Pharmacia & Upjohn Inc. sells an injectable form of the compound used by Vivus.

The fast entrance of competing drugs highlights a dramatic change in the pharmaceutical industry. Where once it took some 15 years to develop a new drug, advances in technology and the understanding of how cells work has allowed drugmakers to shave years off that incubation period. At warp speed, new technology allows chemists to test thousands of drug candidates in one day. And that's just the begin-

...And in the Pipeline

	TREATMENT	COMPANIES	POTENTIAL USERS
	Pills that reduce appetite and speed up metabolism	ROCHE HOLDING, BASF, BRISTOL-MYERS SQUIBB	60 million U.S. adults
	Drugs to fight the growing threat of hepatitis B and C	BRISTOL-MYERS, PFIZER, OTHERS	360 million people worldwide
ON	Drugs that block brain chemicals that are a factor in depression and a variety of other psychiatric disorders	PFIZER, ELI LILLY, BRISTOL-MYERS MERCK	27 million U.S. adults
NCE	Drugs aimed at improving bladder control	ELI LILLY, PFIZER, BRISTOL-MYERS	120 million adults worldwide
	The next generation treatment, meant to act faster and longer	MERCK, PFIZER, BRISTOL-MYERS, PHARMACIA & UPJOHN	25 million U.S. adults
	Nonaddicting drugs that work like Valium but without the side effects	PFIZER, NEUROGEN, BRISTOL-MYERS	10 million U.S. adults
	Drugs that enhance cognition may be useful for Parkinson's and Alzheimer's sufferers	PFIZER, MERCK, BRISTOL-MYERS, ELI LILLY	7 million U.S. adults

DATA. SALOMON SMITH BARNEY, BUSINESS WEEK, MERCK, PFIZER.

ning: Drugmakers are now able to identify the specific receptors on many cells that attract disease-causing agents. By pinpointing those pieces, they hope to target their attacks on everything from cancer to viruses with amazing accuracy and few side effects.

All of these techniques are being marshalled to look for what could be the biggest lifestyle blockbuster—the next

Cover Story

Prozac. The pioneering antidepressant Prozac, introduced in the late 1980s, and its younger cousins Zoloft and Paxil, target the brain chemical serotonin. They are widely used for a whole host of ailments, from eating disorders to obsessive-compulsive behavior. The result: Annual sales for the three this year should top \$6 billion. Drug companies are searching for a new psychotropic drug with even more uses and fewer side effects.

SIZE COUNTS. There are lots of candidates. Merck is investigating a new class of drugs that block the action of a brain chemical called Substance P and could be used to treat depression and schizophrenia. Pfizer, in partnership with Neurogen Corp., is in early clinical trials with a drug that is aimed at GABA, a brain chemical involved in anxiety. If successful, the compound should have all the benefits of Valium, with none of the addictive qualities or other dangerous side

effects. Given that medical experts estimate that 10% of the U.S. population suffers from chronic or acute anxiety, a safe and effective treatment could easily rival Prozac in sales.

The huge sums that must be spent to find these blockbuster drugs will spawn dramatic changes in the industry. Drugmakers have long felt they needed size—especially massive research budgets—to produce the gigantic sellers. With billion-dollar drugs have come billion-dollar research-and-development budgets and, paradoxically, the need to chase still more megasellers to keep growth rates up. Look for a raft of mergers, affecting largely those companies that aren't able to deliver their own blockbusters, and a reordering of the type of ailments drugmakers focus on. Over time, old deals that collapsed amid ego clashes—such as the aborted joining of SmithKline Beecham PLC and American Home Products Corp. early this year and then SmithKline and Glaxo Wellcome PLC—could get a second wind. Even huge players such as Merck—whose executives pondered a deal with Pfizer in the early 1990s—might be less resistant to approaching the altar.

A wave of patent expirations will further accelerate consolidation. While Pfizer's bumper crop of new drugs has kept it above the merger fray, Eli Lilly & Co. and Merck, among others, are more vulnerable because star drugs such as antihypertensive Vasotec and Prozac will face cheap generic

THE FORMULA AT PFIZER: DON'T RUN WITH THE CROWD

It's ironic. With the explosive launch of Viagra, Pfizer Chairman William C. Steere Jr. now finds himself at the center of a cultural phenomenon. And yet Steere's leadership at Pfizer Inc. has been based largely on avoiding the latest fad.

When a number of drug-industry giants struck merger deals in the late 1980s and early 1990s, Steere passed on dealmaking. And as giants such as Merck & Co. and Eli Lilly & Co. acquired companies that manage pharmacy benefits, again Pfizer took a pass. Instead, Steere continued to pump billions into developing new drugs and expanding Pfizer's sales force—investments that for years put a drag on earnings and drew the scorn of analysts. "We went counter to some trends," says Steere, "and we took a lot of beatings."

Any bruises from those years have long since healed. Thanks in large part to its heavy investment in research and marketing, Pfizer is poised to become the new drug-industry leader. The Viagra juggernaut is just one of a host of hot products driving Pfizer's sales and earnings growth. Cowen & Co. analyst Stephen M. Scala figures the company's sales will ratchet up 16% annually over the next several years while net income soars at nearly a 20% annual clip. Revenues last year grew 11%, to \$12.5 billion, and net income was up 15%, to

\$2.2 billion. Merck ranked first, with pharmaceutical revenues of \$14 billion.

Steere's biggest challenge: how to deploy the vast wealth Pfizer's hits will generate. He says it will flow into new research and marketing, and to shareholders through the bottom line or via stock buybacks or higher dividends.

Few can rival Pfizer's drug portfolio. The Viagra rollout, with more than 350,000 prescriptions written in the first three weeks, has blown past

Wall Street estimates and is shaping up to be the strongest drug launch ever. But Pfizer also is capitalizing on drugs that didn't come out of its own labs. The fastest launch before Viagra was for Lipitor, a cholesterol-reducing drug developed by Warner-Lambert Co. that hit the market in '97. Pfizer is co-marketing Lipitor, which could ring up annual global sales of \$6 billion by 2002. Steere landed yet another expected blockbuster when Monsanto Co.'s G. D. Searle unit chose Pfizer to co-market its upcoming arthritis treatment, Celebra.

Those three drugs—Lipitor, Viagra, and Celebra—make for a potent combination. "It's like the Yankees fielding

NO MERGERS

Pfizer eschewed industry hookups, instead pumping up R&D and co-marketing now hot drugs



Babe Ruth, Lou Gehrig, and Jimmie Foxx in one season," says Smith Barney analyst Christine No surprise, then, that some expect Pfizer to hit a home run in stock. Despite its huge runup in stock could, says Cowen's Scala, \$135 in the next 18 months, up from \$113 on Apr. 28.

Much of Pfizer's success stems from Steere's relentless focus on marketing breakthroughs. Pfizer now spends 16% of sales—\$1.9 billion—on research and development, up from 11% in 1990 and among the highest levels of spending by the industry. But throwing money

within six years. Moreover, thanks to the technology-speedup in new drug discoveries, competitors can quickly follow innovative drugs to market with knockoffs at the same disease. That's why Merck's Zocor, for instance, is losing share in the cholesterol-reducer market less than a year after the introduction of the wildly successful Lipitor's edge: greater efficacy.

Conventionally, the drug now at the forefront of all this fertility was discovered more by serendipity than fancy chemistry. Pfizer researchers were investigating the compound, originally known as sildenafil citrate, for angina in men when they heard that study participants reported an unexpected side effect: The drug was improving their sex lives. "The guys in those early [impotence] trials didn't want to go back," says Pfizer executive vice president John F. Ack.

Indulgent that occasional impotence—a natural effect of the aging process that comes with aging—is a growing worry for boomers, the Pfizer researchers quickly launched full-clinical trials. Eventually, they tested it in over 4,500 men aged 19 to 87, who suffered from "erectile dysfunction" as a result of causes ranging from anxiety to diabetes. After some five years of research, Pfizer found that the drug works in about 70% of sufferers. Taken about an hour before sexual pursuits, the drug becomes a powerful aid to natural

stimulation. As nitric oxide builds up, Viagra enhances its erection-producing power by inhibiting another biochemical, PDE5, that works against arousal.

Viagra has entranced even veterans of the sexual-treatment field. "Nothing's perfect, but this is as close as you can get," says Dr. Uri P. Peles, director of the Beverly Hills Center for Sexual Medicine in Los Angeles. Peles, 57, has tried the drug as well as prescribed it for patients and says Viagra produces a long-lasting "rejuvenation" that couples find exhilarating. Peles' 56-year-old lover agrees, saying that the drug made Peles "a little more mellow, not as anxious."

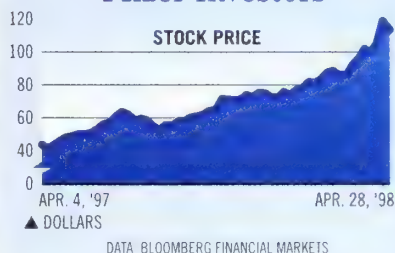
Men who have been impotent for years are ecstatic over the drug. Barry Fribush, a marketing consultant in Bethesda (Md.), was rendered impotent by surgery for colon cancer a few years ago. He tried everything from a tree bark known as yohimbine to the injectable Caverject, but nothing was satisfactory. His urologist enrolled him in the trials for Viagra and he hasn't been disappointed since. "I have the kind of erections I had when I was 20 years old," he says.

Doctors say the drug could deliver some important side benefits. Men who shy away from discussing impotence could have more dire ailments that will turn up in medical assessments. Studies have shown that as many as 40% of men over age 40 have some degree of erectile dysfunction but most ignore the problem. "This drug will bring a lot of



MAVERICK
"We went counter to some trends, and we took a lot of beatings," says Pfizer CEO Steere

Viagra Pays Off for Pfizer Investors



abs hardly assures research that has distinguished Pfizer and flexibility. The company's ability to adapt helped the company nab the Viagra opportunity. Pfizer initially tested the drug, sildenafil, as a treatment for angina. But the drug also produced an unexpected side effect—improved sexual performance. The company quickly shifted gears and began developing the drug for men. Pfizer's research team had to get its winners to market. With Viagra, for example, the company was preparing for large-scale testing when the drug was still in development. While that would have

backfired if the drug fizzled in later testing, it let the company hit the ground running when it got government approval to sell Viagra.

Pfizer has also been aggressive in striking partnerships with smaller development operations to speed testing. While some big drugmakers, such as Merck, prefer to do most of the important clinical trials in-house, Pfizer Executive Vice-President John F. Niblack says more than half the trials on Viagra and the recently launched antibiotic Trovan were handled by outside testing outfits. That move helped to greatly cut development time on those products. "They aren't bound with the 'not-in-

vented-here' syndrome," says Chris A. Kuebler, chairman of Covance Inc., a Princeton (N.J.) company that helps develop drugs for large companies.

Just as critical has been the company's massive marketing muscle. Pfizer now boasts the largest U.S. pharmaceutical sales force, with 4,500 sales reps calling on doctors. That's the third-largest sales force globally, just behind Glaxo Wellcome PLC and Bristol-Myers Squibb Co. Pfizer's marketing reach helped it nab the Celebra and Lipitor deals, which could bring the company a combined \$4 billion in revenues by 2002, according to Salomon's Heuer.

PRAGMATISM. Pfizer's rising fortunes mean it can keep powering its research engine. The company is boosting "discovery" facilities in the U.S., Britain, and Japan by 50%, which will help lift the number of early-stage compounds in its pipeline. And Pfizer has a number of promising products beyond Viagra. Next year, Pfizer will launch a new migraine treatment and a drug for atrial fibrillation, an irregular heartbeat condition. Analysts also are buzzing about an inhaled insulin product for diabetes. It could hit the market as early as 2002.

But don't look for Pfizer to radically bulk up its R&D based on the company's newfound wealth. "If you build a workforce that outstrips your ability to manage it, you're wasting your time," says Pfizer's Niblack. That sort of discipline and pragmatism should go a long way toward ensuring that Wall Street's romance with Pfizer is more than just a momentary thrill.

By Amy Barrett in Philadelphia

men into the office," says Dr. Kenneth A. Goldberg of the Male Health Institute at Baylor Health Center in Irving-Copell, Tex. "We can pick up other medical problems."

If they do, drug companies hope to be there with a cure. "We are very interested in drugs for the aging population," says Pfizer's Niblack. "That is where you should watch us—osteoporosis, strength, and fragility in the elderly, mental illness in the elderly, prevention of second heart attacks."

Industry executives figure baby boomers would gladly pay to pop a pill rather than diet, exercise, watch their

cholesterol—or do without sex. Viagra costs little more than the price of a movie ticket—a small price to pay for many men whose joie de vivre can now get a chemical kick-start. "I don't smoke. I don't drink much. I could spend my money that way," says a 58-year-old Los Angeles resident who is a happy Viagra consumer. For drugmakers and their investors, finding new ways to encourage consumers to spend their money is the most powerful elixir of all.

By Joseph Weber in Toronto and Amy Barrett in Philadelphia, with Michael Mandel and Jeff Laderman in New York

COMMENTARY

By Peter Coy

IS THIS PRESCRIPTION NECESSARY?

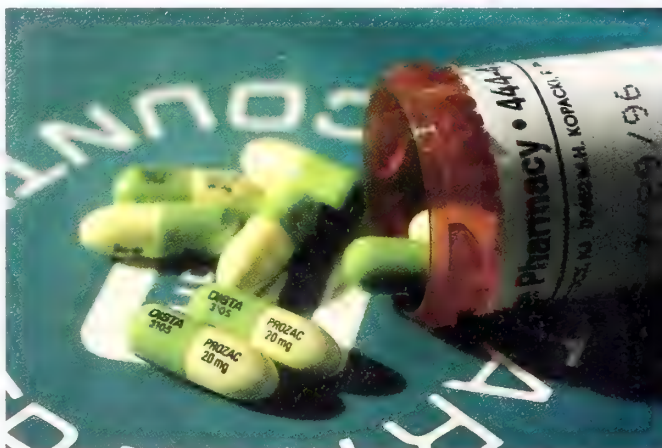
The list of things that money can't buy has just shrunk by one.

Now, millions of men who suffer from impotence have a \$10 pill. It's a great day for medicine, not to mention male self-esteem.

But for health insurers, Viagra raises difficult questions. Should they reimburse patients for Viagra pills? If so, are five pills a month enough? Or 30? Do 95-year-olds qualify? What if a patient is only a little impaired?

Should it matter if his impairment has psychological roots—and what he mainly needs is psychotherapy?

Sex is not what makes Viagra complicated. There are similar questions about mood drugs like Zoloft



and Prozac, diet drugs, memory drugs, and growth hormones. For each, the issue is whether insurers—and by extension, society at large—must pay for drugs even if some patients taking them are not severely impaired but simply want to improve their lives. As modern medicine spits out more and more miracle drugs, these questions will grow in urgency.

Cover Story

THINK TANK. Let's start with a basic principle: In general, insurers should pay for treatments, not for enhancements. This distinction was made by Tufts University philosopher Norman Daniels, a medical ethics expert. The terminology became a touchstone for a recently completed study by The Hastings Center in Garrison, N. Y., called *On the Prospect of Technologies Aimed at the Enhancement of Human Capacities and Traits*. With \$140,000 from the National Endow-

ment for the Humanities, the ethics center spent two years thrashing out the issue with 20 leading thinkers from law, philosophy, sociology, and medicine. It's easiest to understand the treatment vs. enhancement distinction with an example. Let's say two boys are candidates for growth hormone therapy because their full-grown height without treatment would be 5 feet 3 inches. The one whose shortness is caused by a brain tumor would qualify for reimbursement. The one who had short parents would not—for him, the therapy would be deemed an enhancement.

That intellectual framework could help quell the chaos over Viagra. Cigna Healthcare says that until it sets a permanent policy, it will reimburse for just six pills a month—and only for "a preexisting, documented condition of organic impotence, which is currently being treated by other medical means." Kaiser Permanente probably won't limit the number of pills, but is leaning toward reimbursing only 50% of the cost. And so on.

PROZAC

When a treatment is prescribed in order to enhance a lifestyle, who should pay the bill?

Limits on reimbursement may seem arbitrary and unfair. But making tough calls is better than providing blanket coverage for unlimited usage at an enormous cost to policyholders—or going in the opposite direction and denying coverage for "lifestyle" drugs entirely. That would penalize people who truly suffer from dysfunction. And it would divide society by ensuring that only rich people could correct their sexual dysfunctions, treat their depression, combat their obesity, improve their memory, and raise tall children.

The treatment vs. enhancement distinction isn't perfect. It opens up the perplexing question of how to define normality:

How bad does your sexual function—or your memory, or obesity—have to be before you're considered impaired? And there's the honesty question: Insurers could try to duck out of paying for treatments by construing them as enhancements, while many patients would persuade their doctors to write prescriptions for drugs they don't absolutely need. Scott-Levin, a Newtown (Pa.) health-care consultancy, says over 90% of patients' requests for depression treatments like Zoloft and Prozac are honored by their physicians.

While it's not the cleanest of distinctions, treatment vs. enhancement is a starting point for a much needed debate on who pays for what. The excitement over Viagra may be just the thing to get that debate rolling.

Coy is associate economics editor

Sometimes
bigger is
better.



SPRING REALTY PRESENTS: One Elm Street **\$280,000**

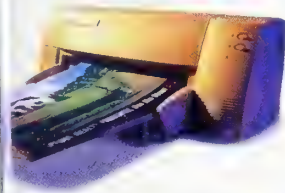
"Cozy Charmer"



SPRING REALTY PRESENTS: One Elm Street **\$400,000**

"Gracious Estate"

When you can print things big, there's almost no limit to what you can do. But our new DeskJet 1120C printer doesn't stop there. It can print all sizes from postcards to posters—including 11x17 pages and miniposters as large as 4 1/2 feet. And it will also produce color booklets that are ready to be folded and stapled. All using our PhotoREt II printing technology for extra-sharp detail in photos. And as you can see, these things can make a rather significant difference. To learn more about it, please visit us at www.hp.com/go/dj1120



The HP DeskJet 1120C, \$499.*
Suggested U.S. retail price



HEWLETT
PACKARD

Expanding Possibilities

Cover Story

Danger: Read The Label

Doctors are prescribing drugs for unapproved uses—and patients are at risk

The thousands of men who are demanding Viagra from their doctors because they think it will enhance an already well-functioning libido might do well to think back on fen-phen. That's the combination of two obesity drugs, fenfluramine and phentermine, that diet clinics were prescribing to almost anyone who asked over the past few years, even though they had never been approved as a combination treatment. Nor were they O.K.'d as a diet aid for the slightly overweight. Then, last summer, researchers at the Mayo Clinic reported that some women taking the combination suffered serious damage to their heart valves—at least six required open-heart surgery—and fenfluramine was pulled off the market.

Like fen-phen, Viagra is also being widely prescribed for uses other than the male impotence it was approved for. No one knows, however, what might happen if millions of sexually healthy men start taking the drug over a long period. It's even more worrisome if women start taking it—the drug has never been rigorously tested for them.

The rush for Viagra highlights a troubling medical practice: Once the Food & Drug Administration approves a drug, doctors can prescribe it any way they see fit. It's called off-label prescribing, because the prescriptions are being written for diseases that aren't indicated on the label. The FDA has virtually no control over off-la-



ence to back them up. Perhaps the most glaring example is the huge amount of antibiotics—up to one-fifth of all prescriptions, according to one study—that are uselessly handed out to cold sufferers. Colds are caused by viruses, and antibiotics simply do not work against viruses. By taking them, patients only contribute to the increase in antibiotic-resistant bacteria, a major health crisis. Still, doctors report that patients regularly demand antibiotics for colds—and they acquiesce.

Off-label prescribing is likely to increase, because of a federal law passed in December that lets drugmakers promote unapproved uses directly to doctors if they can back up their claims with a published study. "We think being able to selectively pick out an article and send it to 300,000 doctors is a bad idea," says Dr. Sidney M. Wolfe, director of Public Citizen's Health Research Group, a watchdog organization in Washington. "For that matter, it's a bad idea to engage in massive use of any drug off-label in the absence of clear data." **HALCION DAZE.** Wolfe can back up his point with plenty of examples beyond fen-phen (table). Take Halcion, a sleeping pill that has been banned in Britain but not in the U.S. The drug has been shown to increase aggressive behavior and psychosis if taken for more than 7 to 10 days. But an FDA study in 1996 found that 85% of Halcion prescriptions were longer periods.

The FDA does have some control over how an approved drug is promoted, and doctors are required to report any adverse effects to the agency. "We have a provision that allows us to put in the label a warning about off-label use if that causes a major health risk," says Dr. Murray M. Lumpkin, deputy director for the FDA's Center for Drug Evaluation Research. But, he adds, "it doesn't happen that frequently."

In the case of Viagra, the FDA issued plenty of material about the drug's risks, which include headaches, blackouts, and

bel prescriptions. In fact, 27 states have laws requiring that insurers pay for such prescriptions when given for life-threatening diseases.

It's true that off-label prescriptions are often beneficial. Because few clinical trials are conducted using children, many drugs are not approved for kids, but pediatricians still prescribe them on the assumption that they've been proven safe. Then there are the discoveries, often during large clinical trials, that an already approved drug is effective against another disease. The FDA usually expedites approval for such additional uses, but doctors need not wait.

Medical experts worry, however, that far too many off-label prescriptions are written without the science

Have Pen, Will Prescribe

Patients often demand drugs for uses not indicated on the label. Too many doctors go along.

FENFLURAMINE AND PHENTERMINE (FEN-PHEN) The combo soared in popularity among the overweight, but deadly heart valve problems cropped up

ENCAINIDE AND FLECAINIDE Approved for heart arrhythmias but widely prescribed after heart attacks—until deaths occurred from side effects

ANTIBIOTICS One-fifth are prescribed for colds, even though they don't work against viruses and can foster drug-resistant microbes

sion problems. But there's no way of knowing how many doctors are passing on the warnings. Patients, though, might think back to fen-phen before reaching for the drug to spice up their sex lives. They discovered down the road that it was not worth the risk.

*By Catherine...
in New York*

EDITED BY OTIS PORT

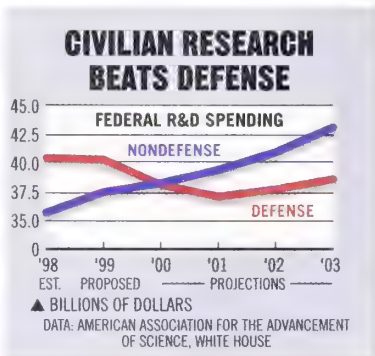
LE SAM RECUTS R&D PIE

21ST CENTURY COULD with a bang for research and development. For first time in 60 years, an R&D could overtake defense technology in Washington's spending priorities. That should occur in fiscal 2000, and by 2003, non-defense research could grab the federal R&D budget, according to the American Association for the Advancement of Science (AAAS). The more industrialized countries have long plowed most of their public R&D funds into

nondefense work. And competitiveness gurus have been urging the U.S. to follow suit. Adding fuel to the fire, a 1997 study by Chi Research Inc. in Haddon Heights, N.J., turned up strong new evidence that tax-supported research, especially at universities, is crucial to industrial technology.

The AAAS study, which was prompted by the sizable R&D boosts in President Clinton's proposed 1999 budget, does raise some warning flags, though. Most new non-defense funding would go to health and biomedical research. But breakthroughs there often

stem from advances in the physical sciences and mathematics—disciplines not slated for big increases. Also, much of the new money would come from tobacco-settlement funds, which are still problematic, politically. □



E SINGULARITY SENSATION

SICISTS ARE NOW IN HOT PURSUIT OF A "theory of everything" that would merge theories for quantum mechanics, gravity and relativity—and unleash a new wave of scientific breakthroughs. The first step is to understand how everything began by simulating the Big Bang of 10 billion years when a tiny "singularity" erupted and birthed the subatomic particles that make up matter as we know it. To simulate the event, physicists at Columbia University have built a special-purpose supercomputer to chew on quantum chromodynamics (QCD) equations—perhaps the toughest problem in quantum physics. Columbia built its first QCD computer in the early 1980s, and Norman H. Christ,

head of physics, is sure the new one will cough up the most precise answers yet.

The experiment will get under way by June, running on two home-built supercomputers. Columbia's machine handles 400 gigaflops, or billions of calculations per second. For extra oomph, it will run in tandem with an even faster, 600-gigaflops computer that Christ's crew is still constructing at Brookhaven National Laboratory. Together, they should be able to outstrip earlier QCD simulations, including a 1992 effort by IBM. Big Blue confirmed QCD's predictions in 1993, but only after taking some math shortcuts. By eliminating the shortcuts, Columbia's experiment should be more accurate. Christ figures it will take close to a solid year of number crunching to begin getting answers. □

PUTTING A PATCH ON FAULTY RNA

MOST APPROACHES TO GENE therapy involve deleting or replacing faulty genes. But for some genetic disorders, repairs may be possible. That potential is described in the Apr. 28 issue of *Proceedings of the National Academy of Sciences* by researchers from the University of North Carolina and Bern University in Switzerland.

Messenger RNA molecules ferry information from DNA in a cell's nucleus to its outlying cytoplasm, where proteins are made. Malformed RNA is linked to a number of serious illnesses, including a hemoglobin deficiency called beta-thalassemia. This malady, common in the Middle East and Southeast Asia, can cause anemia and death in children.

Working with modified human cells, researchers were able to correct the problem with molecular bandages. The patches, known as "antisense" molecules, are mirror images of the sites producing faulty RNA. Thus, they fit perfectly over problem sites, blocking the production of defective RNA. In culture, treated cells responded with an increase in globin, a key protein in hemoglobin. The researchers expect to begin animal studies soon.

Neil Gross

INNOVATIONS

Every year, U.S. dairy farmers dump out rivers of milk contaminated with penicillin, which farmers feed to cows to thwart infections. Last year, 5 million gallons were dumped. Last year in Wisconsin, such milk could be sold for good use—as house paint. Leuther-Glass, a dairyologist at Leuther Lab in Coon Valley, Wis., developed a process to remove the penicillin with enzymes. The milk still isn't



drinkable, but Wisconsin's Agriculture Dept. says the milk could now be turned into \$15 million worth of latex.

Smokers not killed by their tobacco habit may face another heart-wrenching condition: senility. Analyzing the results of four European studies involving 9,223 nondemented seniors, a research team led by Lenore Launer at Erasmus University Medical School in Rotterdam found smokers showed a much greater decline in memory and other cognitive faculties than did

participants who had quit smoking or had never smoked.

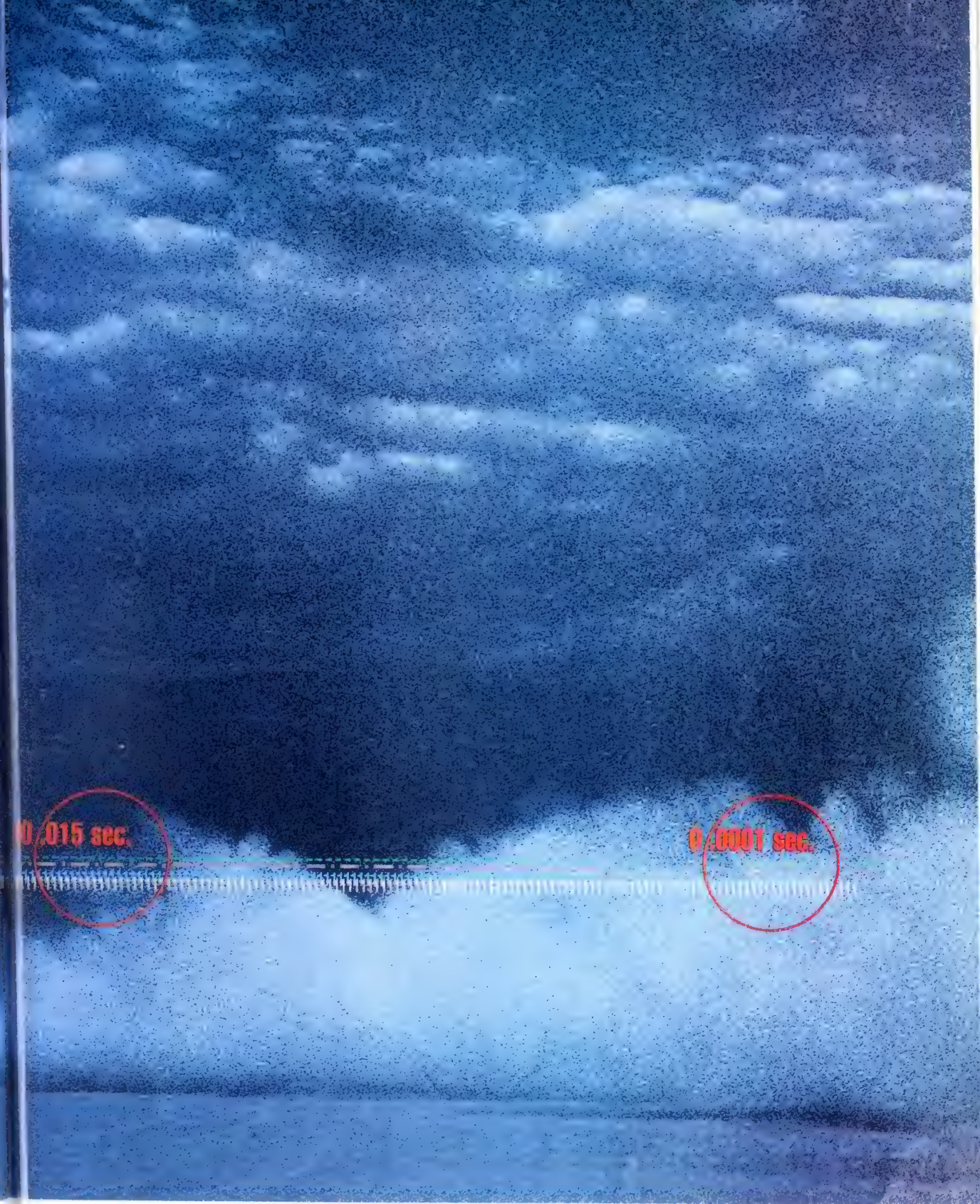
Scientists at an Apr. 27 American Association of Neurological Surgeons meeting reported on 12 patients with Parkinson's disease who last year received transplants of fetal pig brain cells. Before the treatment, the patients had moderate-to-severe disease for an average of almost 14 years. Results are good so far, says Dr. James Schumacher, a neurosurgeon at Neurological Associates in Sarasota, Fla., who will continue the work. □

light speed vs. land speed

every fact, photo and film image, for every land speed record ever set,
sent from boston, massachusetts to salt lake city, utah in 0.04 seconds.

0.04 sec.

Speed, wild speed, but how do you tame it? consider that the speed of light travels at 669,600 mph. nothing is faster. consider the Qwest Macro Capacity Fiber Network, which harnesses power of light to move two trillion bits of information per second. and to tame wild speed, contr



0.015 sec.

0.0001 sec.

Keep it secure? Qwest Absolute Data Integrity. It allows for no more than
bits of error in every quadrillion bits. that is like one grain of salt missing
in a twenty-mile stretch of desert flats. like we said. wild.

www.qwest.net

ride the light

Qwest.

EDITED BY AMY DUNKIN

THE TITANS OF TEMPLETON

Around the airy Nas-sau offices of Templeton Worldwide, they're known as the Marks

Brothers: Mark Holowesko, 38, and his Hong Kong-based colleague, Mark Mobius, 61, heirs to John Templeton's fabled global value-investing formula. While Sir John left fund management 11 years ago, investors still turn to Templeton's 65 funds when they want global exposure.

Plunging Asian markets have caused some Templeton funds to stumble lately. But over the long haul, investors have fared well. Over the past 3, 5, and 10 years, total returns for the group's flagships—Templeton Growth and Templeton Emerging Markets Funds—have ranked among the top third in their sectors despite their relatively high expenses. Franklin Resources, which bought Templeton in 1992 for \$786 million, has helped bring in new assets by turbocharging the group's marketing.

In Asia, Franklin capitalized on Mobius' globe-trotting ways, spotlighting his shaved head in full-page newspaper ads that promote his three decades of emerging-market experience. Franklin has even dropped the Templeton open-end funds' 5.75% load for investors who patronize selected financial advisers. The stepped-up sales effort—plus bull markets in the U.S. and Europe—have helped assets rise more than fivefold since 1992, to \$107 billion. Holowesko's global-equity portfolios account for \$80 billion of that, with Mobius managing \$14 billion in emerging-market stocks.

The cash deluge hasn't diverted them from Sir John's stock-picking strategy: Buy cheap companies that boast strong balance sheets and look ripe for change; don't worry about country allocations and currencies; and hold for at least five years.

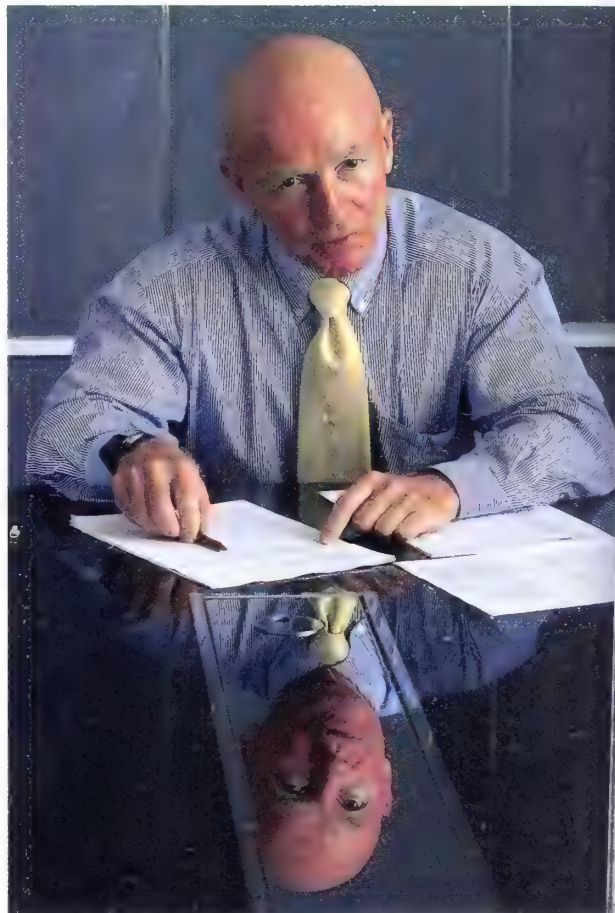
FUNDS

After Asia's collapse, will a strict value formula let Holowesko and Mobius find bargains? How about the U.S. and Europe, where prices are sky-high? Personal Finance Editor Toddi Gutner and Asia correspondent Mark Clifford met with the Marks Brothers to divine their strategies.

GLOBAL PIONEER

Some international investors make a few trips a year to far-flung countries in search of new ideas. Then there's Mark Mobius. With a corporate Gulfstream IV jet as his personal vehicle, Mobius spends 300 days annually shuttling from one exotic locale to another in search of emerging-market values. But lately, investors might be wondering if Mobius, a Massachusetts Institute of Technology economics and political science PhD who manages about \$14 billion, has lost his touch.

An aggressive, bottom-up



PATIENCE: Mobius sees "once-in-a-generation bargains"

value manager, Mobius was blindsided by Asia's collapse. He started an offshore Thai fund on June 20, just 12 days before the country's currency devaluation triggered Asia's financial crisis. By Mar. 31, the fund was down 53%. His Indian and Japanese offshore funds have each lost 27% since their launch last June. And a

Korean fund introduced in 1997 had fallen 67% by the quarter's end. "It has been rough," he says.

But nobody's writing Mobius off yet. Declaring that Asia offers "once-in-a-generation bargains," he's moved back into Thailand, Malaysia, and Hong Kong—as well as Mexico, Argentina, and Peru, which have drifted this year. Indeed, over the long run, Mobius' perennial optimism about emerging markets has paid off. His flagship \$28 billion Templeton Emerging Markets Fund, one of the funds of its kind with a term record, has produced a 23.4% annual return for 10 years ended on Fe-

Mobius' Record

	TOTAL RETURN*		
	1ST QUARTER	12 MONTHS	3 YEARS
TEMPLETON DEVELOPING MARKETS	5.36%	-12.00%	7.26%
TEMPLETON DRAGON**	2.80	-17.66	15.93
TEMPLETON EMERGING MARKETS**	10.28	1.13	39.42

*Through Mar. 31

**Closed-end funds; total return based on net asset value

DATA: MORNINGSTAR INC. THOMAS I. HERZFELD ADVISORS INC.

pite losing 12.4% in the six months.

Mobius buys stocks with idea of holding them for years. He says investors emerging-market funds had adopt the same time zone. "Mobius is one of the best, because he has been in emerging markets longer than everyone else," Kevin McDevitt, a managing analyst.

Perhaps Mobius' long-term success has contributed in part to his recent comedown. As emerging-market investing lost respectability, assets in its funds exploded. That prevents him from taking profitable positions in small stocks that may have the best hidden values. Instead he is forced to buy big. For example, a quarter of the China Fund's assets are in Hong Kong blue chips, including HSBC Holdings, paragon of Hongkong & Shanghai. As Asian flu has swept Hong Kong, the offshore Chind fund has ended up losing 13% of its value since its 1994

FIGHT. Franklin's drive and its global empire so pushed Mobius to several single-country funds that so far have been losers. Take the New York Exchange-listed Vietnam Opportunities Fund. Another that the closed-end fund invest in Vietnam as well as elsewhere, shareholders have lost 13%. District Court in New York says the suit without merit and the company will "vigorously contest" it. He says the problem arose because Vietnam failed to open its stock market as expected. Mobius beat a proxy to liquidate the fund, and shareholders approved a plan in the fund's mandate to liquidate Southeast Asian funds. The fund is down 34% in the year ended Mar. 31, making it the worst performer of the four Vietnam funds.

Now he is snapping up Thai stocks including a chunk of Siam Bank, in hopes

of a turnaround in the sector. He also placed a big bet on a beaten-down Thai telecom provider, Advanced Information Service. His Emerging Markets Fund has taken large Malaysian positions recently, including power producer YTL and Malaysian Airline System. And recently, Mobius' old friend Philip Tose, co-founder and former chairman of bankrupt Hong Kong-based Peregrine Investments Holdings, joined Templeton to help expand its Asian business.

Mobius' record suggests he has a good chance of restoring his luster. In emerging markets today, "the opportunities

are there—amazing, incredible opportunities beyond anyone's reckoning," says Mobius. But will his investors have the patience to wait for these opportunities to pay off? *Mark Clifford, with Toddi Gutner*

COOL SAILOR

Mark Holowesko, the athletic-looking investor who watches over \$80 billion for Templeton Worldwide's global-equity group, is having a hard time finding bargains these days in many of the world's hot

markets. As chief of Templeton's Foreign and Growth Funds, among others, the Bahamian-born Holowesko thinks France and Italy are getting too pricey—and the U.S. is off the charts. American investors, he says, "are driven by liquidity and momentum, not by valuations." In fact, 20% of Holowesko's assets are in cash.

So where is he shopping now? He still likes Britain and Scandinavia despite their recent gains. And he finds value in Asia's dirt-cheap markets. Holowesko could use some hits to spice up his performance (table). Over the

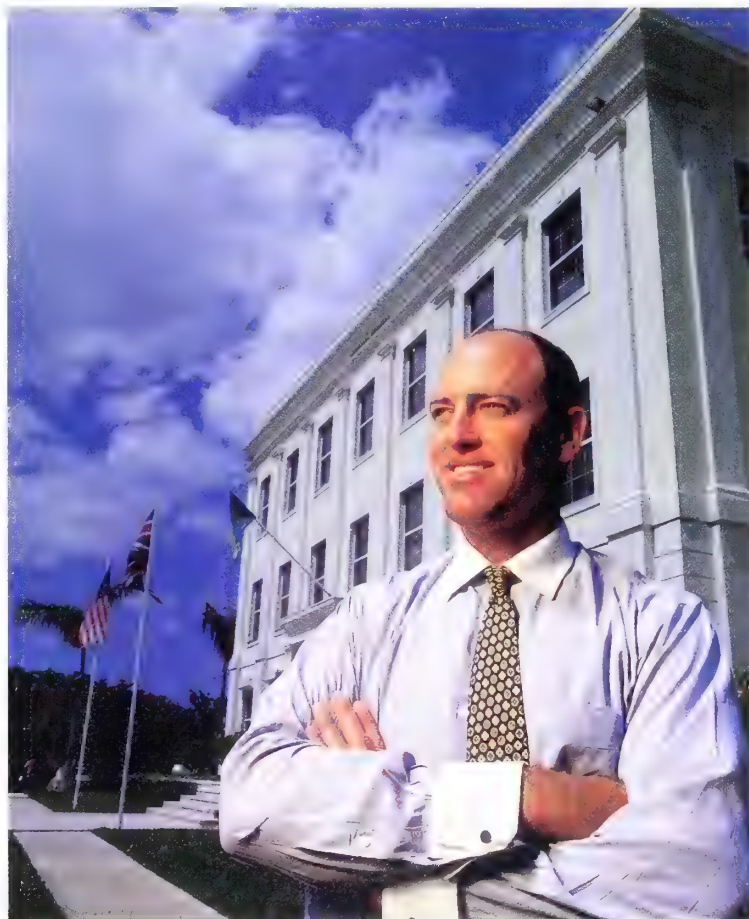
past year, Growth and Foreign have lagged behind the Standard & Poor's 500-stock index and Morgan Stanley Capital International World and Europe, Asia, & Far East indexes. As a result, they have fallen to the bottom half of their peer groups. "His value orientation leads to short-term underperformance," says Morningstar analyst Bill Rocco.

Holowesko, who skippered a two-man boat for the Bahamas in the 1996 Olympics, accepts the criticism

LOOKING EAST: Asia has Holowesko's long-term vote

with equanimity. "We tend to buy too early and sell too late on a third of our stocks," he says. One he failed to exit early enough was Peregrine, which crashed in December, costing him \$80 million.

But he takes solace in knowing that only 11% of his group's assets were in Asia when the crisis hit. So why is he going back now? Distressed companies' prices are so far below Templeton's estimates of their true book value that their long-term potential far outweighs the risk



Holowesko's Record

	TOTAL RETURN*		
	1ST QUARTER	12 MONTHS	3 YEARS
TEMPLETON FOREIGN FUND I	10.75%	14.15%	15.54%
TEMPLETON GROWTH FUND I	10.36	24.65	21.15
TEMPLETON WORLD FUND I	12.19	28.86	23.74

*Through Mar. 31

DATA: MORNINGSTAR INC. THOMAS J. HERZFELD ADVISORS INC.

Personal Business

of further declines, he says.

That's why Holowesko is buying Hong Kong stocks. He's adding more South China Morning Post, publisher of Hong Kong's largest English-language daily newspaper. A classic asset play is Cheung Kong, a Hong Kong real estate conglomerate that owns half of Hutchison Whampoa, another conglomerate that runs ports, among other things. Holowesko argues that Cheung Kong's market cap almost equals the value of its Hutchison Whampoa holdings, giving him the former's assets for free.

Indonesia's crony capitalism doesn't faze Holowesko. He likes Asia Pulp & Paper, a Singapore-based exporter with huge Indonesian operations that sold \$500 million in convertible debt recently. He's also sticking by South Korea, which has agreed to a \$57 billion International Monetary Fund rescue. He likes SK Telecom, a cellular-phone provider that uses advanced technology and has seen its American depository receipts drop to a mere 5.5 times operating earnings.

Europe used to offer similar values five years ago, when Holowesko began buy-

ing there. Since then, Europe has been restructuring. But there are still some plays left. "Economic conditions there today are similar to what was happening in the U.S. 10 years ago," he says. Lately, Holowesko bought Hillsdown Holding, a British foodmaker, and added to his stake in Norwegian oil independent Saga Petroleum. Even in the U.S., which he says would have to fall 40% to return to its average valuation of the past 20 years, he has found value. He recently bought Titanium Metals, a big supplier to Boeing. It sells for nine times earn-

ings, vs. the average market valuation of 26.

That Holowesko has fretted out cheap stocks in the midst of Wall Street's boom is no surprise. He remains devoted acolyte of Sir John Templeton, who rejected a then hired the Holy Cross and Babson College graduate only after he proved his worth by excelling on the Certified Financial Analyst exam. He keeps Templeton's rejection letter on his desk along with one announcing his first raise of \$1.50 an hour. His ex-boss practices what he preached—as does Holowesko. *Todd Gut*

MAKING A BUCK AS BANKS HOOK UP

Has merger mania among financial-services companies finally awakened your interest in the sector? Picking individual stocks at this stage is risky, since investors have bid up many banks, brokers, and insurers on expectations they'll be acquired. But consolidations should go on for years. So you may want to look at a financial-sector fund. It can offer access to an array of stocks that should benefit as industry players seek higher profits and greater efficiency by teaming up.

Of the 23 financial funds Morningstar tracks, nearly all

have had market-beating returns over the past five years. The group's average return over the period is a tidy 26%, against the 23% for the Standard & Poor's 500-stock index. But not every financial fund is the same (table).

Given that much of the dealmaking has been among local lenders, you might want to pick a fund that focuses exclusively on regional banks. Fidelity Investments has one, as well as others that concentrate on home finance, insurance, consumer finance, and general financial services. An even bet-



ters of its \$800 million in assets are divided among banks, insurers, and diversified companies such as American Express and Travelers. The remainder is in stocks from other sectors, such as technology and real estate. The fund boasts a five-year average annual return of 27%. It's nice to have a shopping list from which to choose,"

Ken Charles Feinberg, co-manager of the Fidelity Financial Services and Investment Strategic Financial Services, rely more heavily on financial stocks but have different strategies. Invesco's fund features high turnover, nearly half its assets in domestic banks and thrifts, the rest in other financial businesses. T. Rowe Price has a fairly low turnover and 28% of its assets in banks, according to Morningstar.

Diversified funds may turn out to be more volatile than pure banking funds. Commercial banking is a stable, slow-growth business with fairly predictable earnings. Brokers and fund companies, meanwhile, could be a big hit if the bull market ends. But with marriage in place across industries, broader may be in this arena. *Amey*

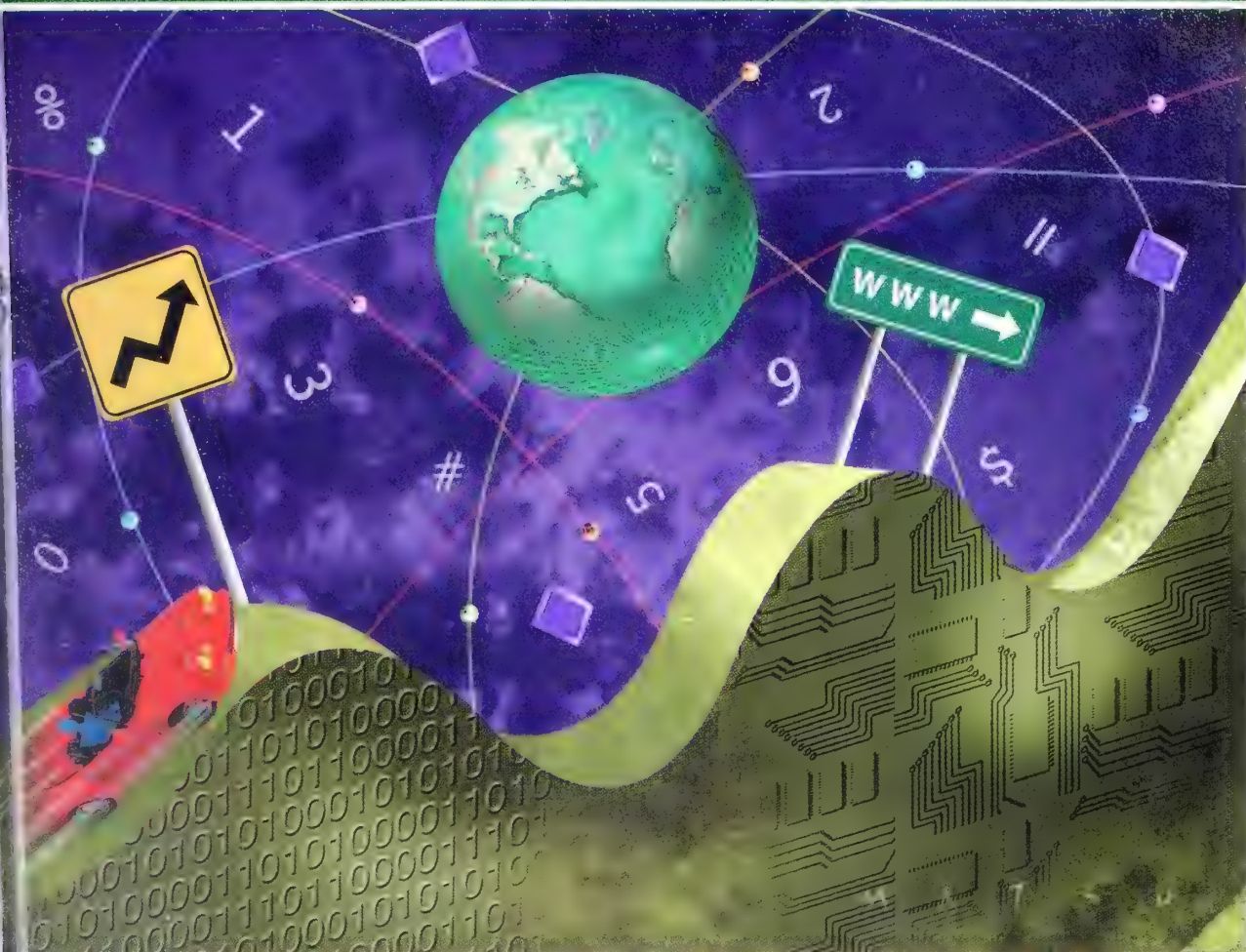
Bank Stocks Plus

FUND	PERCENT OF ASSETS IN U.S. BANK STOCKS	TOTAL RETURN*	
		YEAR-TO-DATE	5-YEAR
DAVIS FINANCIAL	23%	8%	27%
FIDELITY SELECT HOME FINANCE	68	9	33
INVESCO STRATEGIC FINANCIAL SERVICES	49	10	25
JOHN HANCOCK FINANCIAL INDUSTRIES	22	9	NA
T. ROWE PRICE FINANCIAL SERVICES	28	11	NA

*Through Apr. 27

NA=Not applicable

DATA: MORNINGSTAR INC.



IT PLAYS FOR DAREDEVIL INVESTORS

be shocked if, in a few weeks, you see people who have poured money into Internet stocks crooning the classic, *That's Life*. The stocks were riding high in April. But will they come crashing down in May? From astronomical valuations that such companies as Amazon.com and Yahoo! are fetching, you might be willing to bet that they will. "It's dangerous to think that traditional value doesn't apply to this," says Seema R. Hinnant, an analyst with T. H. Hinnant Associates.

Dangerous or not, investors have been singing the Internet's praises for most of this year. Hambrecht & Quist's 50-stock Internet Index is up 32% for the year through Apr. 27, against 12% for the Standard & Poor's 500 (chart, page 108). Some individual issues have gone through the roof (table, page 108). A week after Yahoo!'s first-quarter earnings came out twice as high as Wall Street expected on Apr. 8, for example, the stock soared to a record \$129.63, giving the four-year-old Net search company a market capitalization approaching \$7 billion. Yahoo!'s shares have

INVESTING

since slipped to about \$112, but they're still nowhere near their \$20 low of nearly a year ago. Shares of three other search-engine operators—Excite, Lycos, and Infoseek—also spiked to highs in April. And Broadcom, a supplier of chips for set-top boxes and cable modems, saw its \$24-a-share initial public offering make a buzz on Apr. 17, when the stock climbed as high as \$70 before settling back to \$53.63.

One cause of the Net stock frenzy is a squeeze on short-sellers. Shorts make money by selling borrowed shares in hopes of buying them at lower prices down the road.

Michael Murphy, editor of the *Overpriced Stock Service* newsletter, for one, has been advising clients to short the search companies Excite, Go2Net, Lycos, Infoseek, and Yahoo! Also on Murphy's hit list were Amazon, the Web's leading bookseller; Onsale, an online auctioneer; Preview Travel; SportsLine USA; and two music retailers, N2K and CDNow. "We don't pay 300 times 1999 or 2000 earnings," he explains. But when stock prices rise instead of fall, as has happened lately, shorts have to scramble to buy shares to cover their positions. That pushes their prices even higher.

Can this help explain the mysterious rise of K-Tel International? It's certainly one of the oddest Net plays around. Best known for hawking music compilations on late-night TV, K-Tel announced plans to market its wares via the Web on Apr. 9

Personal Business

and saw its stock jump from almost \$7 to an astonishing \$44.62 less than two weeks later. K-Tel's trading volume, virtually nil on most days, hit 14.2 million shares on Apr. 20, triple the number outstanding. It has since settled back a bit. But even on Apr. 27, a day when Dow Jones industrials slumped 147 points, K-Tel spurted 30%, to \$34.75.

BROWSER BRUISING. The shorts can point with some justification to the decline of browser maker Netscape Communications to explain their pessimism. Netscape shot up sharply when it went public in 1995. But its shares fizzled when Microsoft began giving away its own browser for free. Now, Microsoft's plan to get into the business of making Web transactions secure is helping to pummel the shares of another onetime Net software star, Israel's Check Point Software Technologies. Check Point's stock is trading at \$32.38, down from a high of \$50.50 in November.

But for every Check Point or Netscape, there are many other Net companies that may be worth investing in—if you have a taste for expensive stocks and a high degree of risk. "Companies came public two

years ago on a hope and a dream," says Geoffrey Yang, a partner in the IVP venture capital firm in Menlo Park, Calif. "Now that they're starting to put up results, people are saying, 'Hey, this is a real business.'" Take Yurie Systems, a maker of equipment for transmitting data over the Net. Just over a year ago Yurie went public at \$12 a

share. On Apr. 27, Lucent technologies agreed to buy the company for \$35 a share.

Net stock fans insist the industry's growth is nearly limitless. By the end of 1997, more than 100 million people were online, and Internet traffic has been doubling every 100 days, the Commerce Dept. reports. Cheaper PCs, set-top boxes, and browsers in phones will only make the Net more accessible. Moreover, by 2002, Net commerce between businesses should surpass \$300 billion. That could be a boon for investors in such companies as Harbinger and Sterling Commerce, providers of E-commerce software and services.

Opportunities also abound overseas. On Apr. 21, America Online Europe, a joint venture between AOL and Bertelsmann, struck a one-year deal with N2K to sell music via AOL to European customers. AOL also recently passed the 12 million mark for subscribers, including more than 1.3 million users abroad. Gaining such a crowd makes AOL a huge portal to the Web and affords it an

advantage in attracting advertisers and shoppers. But Yahoo!, Excite, Microsoft, Cnet, and others also are scrambling to become portals. "To compete effectively, search engines must evolve into media companies," says Alan Braverman, a Credit Suisse First Boston analyst who has buy ratings on Yahoo! and Lycos, in part because of their

success so far in managing that transition.

Yahoo!, of course, has one of the premier brand names on the Internet. Keith Benjamin, an analyst with BancAmerica Robertson Stephens, says that although Yahoo!'s current market cap is stun-

market capitalization of billion, Cisco looks expensive. But the company merits premium price because it defines the standard routers in a hypergrowth market, says Geoffrey Moore, co-author of *The Game: An Investor's Guide*.

Red-Hot Companies

	STOCK PRICE*	52-WEEK HIGH	52-WEEK LOW	COMMENTS
AMAZON.COM (AMZN)	82%	100	15%	The leading Web bookseller
AMERICA ONLINE (AOL)	72%	76%	21	Boasts 12 million subscribers
CISCO SYSTEMS (CSCO)	70%	74	30%	its routers make the Web hot
DOUBLECLICK (DCLK)	34%	49%	26%	Provides advertising services
SPORTSLINE USA (SPLN)	31%	38%	7%	Advertisers love it
YAHOO! (YHOO)	112%	129%	19% ⁶⁴	Cyberspace's red-hot brand

*Apr. 27, 1998

SOURCE: BLOOMBERG FINANCIAL MARKETS, BUSINESS

ning, its audience level exceeds that of most TV shows. Benjamin also favors Excite, whose reported first-quarter revenues soared 206%, to \$23 million, although the company probably won't turn a profit until next year. Excite has about one-fifth of Yahoo!'s market cap and about three-quarters of its revenues.

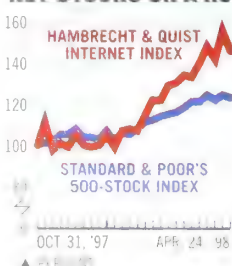
Excite or Yahoo! clearly are Net plays, of course. But Mary Meeker, an analyst with Morgan Stanley Dean Witter, puts Dell Computer in that category as well. The PC manufacturer's shares have nearly quadrupled, to \$74.31, in a year. Early last year, Dell was selling \$1 million in computers over the Net each day. Dell is now up to an average \$4 million daily and expects to do half its business via the Internet by 2000.

HYPERGROWTH. Don't overlook Microsoft as an Internet play, either. Or Cisco Systems. The computer-networking equipment maker has the dominant share of the routers used to move Internet traffic from place to place. With a

to *Picking Winners in Technology.*

If you don't want to pick individual stocks, you may want to invest in a fund. The Internet Fund (www.theinternetfund.com), Munder Management's Net Fund (netnet.munder.com), and www Internet Fund (www.webfund.com; 606-2204) have posted gains this year. Paul Cook and S. Appledorn, co-portfolio managers at NetNet, are plunging up Cendant, plunged 46% after reporting accounting irregularities. Cendant owns NETMarket, a line mall. Cook and Appledorn also see promise in more traditional Net plays. DoubleClick, a recent IPO provides Web advertising services for businesses. And like online brokers E*Trade, Ameritrade, and Charles Schwab. To Net fans such as these, the opportunities in cyberspace have no bounds just that the price of stocks for investors isn't as cheap. Edward C.

NET STOCKS ON A ROLL



"It's dangerous to believe that traditional valuations need not apply to this group," says an analyst.

How hard are your benefits working?

Our assortment can help you attract and retain valuable employees.



plan ahead.

What kind of choices do you have when it comes to group benefits? The Principal® provides you with insurance options like life, health, and disability. Also vision and dental. These are quality benefits that'll help you and your employees get ahead.

And no matter what you choose, expect excellent service. Our timely claims payment and accurate reporting will make

administrative headaches a thing

of the past. Plus,

through superior medical

claims management, The

Principal saved employers and employees \$2.23 billion in 1997.*

That's 43% of the nearly \$5.1 billion submitted to us.

Choices. Service. Value. That's the total performance you get when you choose a group benefit provider with over a century of financial expertise. To get a taste of how you and your company can get ahead, give us a call at 1-800-986-3343 or visit us at www.principal.com on the Internet.

get ahead.

Plan Ahead. Get Ahead.™ the Principal®

*Financial
Group*

Health, Dental and Disability Insurance • Annuities • Mutual Funds • 401(k) and Pension • Home Mortgages

Principal Mutual Life Insurance Company, Des Moines, IA 50392. *Figures represent all 1997 medical claims paid by Principal Mutual Life Insurance Company. Products and services offered through Principal Mutual Life Insurance Company (The Principal), its subsidiaries and affiliates. Mutual funds distributed through

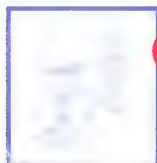
“Crisis and Confidence”

The domino effect of the recent economic turmoil in Asia will test the management ability of executives in developing prudent and sustainable business strategies.

Some companies will emerge stronger and more competitive as a result

Building the New Asia”

Join these and other political and business leaders for the region's premier business dialogue:



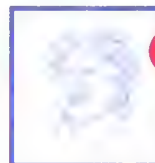
John Major

Former Prime Minister of the United Kingdom



P. Chidambaram

Former Minister of Finance, India



Rafidah Aziz

Minister of International Trade Industry, Malaysia

**THE BUSINESS WEEK
8TH ANNUAL
ASIA LEADERSHIP FORUM
JUNE 23-25, 1998
FOUR SEASONS HOTEL
SINGAPORE**



Falling asset values, slowing consumption, and high interest rates are just some of the effects of the Asian stock and currency market turmoil. The financial shock and crisis has forced companies to adopt a sounder and more sustainable approach to their business strategy. At Business Week's 8th Annual Asia Leadership Forum, key government and business leaders will share their experience on managing through the current challenges. They will explore the forces driving the region's crisis and corporate transformations, analyze the newest challenges for continued reform and development, and share their visions of what lies ahead.

In association with

Singapore Economic Development Board
and
Singapore National Employers Federation

In Strategic Partnership with

Deutsche Telekom AG, and
its subsidiary T-Mobile
IBM Corporation
Global Delivery Services from the
United States Postal Service

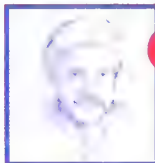
BusinessWeek

Most Read. Best Read. Worldwide.



Leo C. O'Neill

President, Standard &
Poor's Ratings Services



Anand Mahindra

Managing Director,
Mahindra & Mahindra

Forum is limited to Chairmen, Presidents and CEOs with few exceptions made.
Leadership Forum executive program is designed and managed by dnmStrategies.

dnm
Strategies

INTERNET

ADDRESS DIRECTORY

Reach these Business Week advertisers on the Web:

3M
www.3m.com
Acura
www.acura.com
Aetna
www.aetna.com
The American Institute of Architects
www.aiaonline.com
AIM Distributors
www.aimfunds.com
American Isuzu Motors Inc.
www.isuzu.com
American Power Conversion
www.apcc.com
Arthur Andersen
www.ArthurAndersen.com
Andersen Consulting
www.ac.com
AT&T
www.att.com
AXA Insurance & Investment
www.axa.com
British Telecom
www.btglobal.com
Canon Computer Systems
www.ccsi.canon.com
Chrysler
www.chryslercorp.com/
Cisco
www.cisco.com
Clarify
www.clarify.com
CNF Transportation Inc.
www.cnf.com
Comdisco
www.comdisco.com
Compaq
www.compaq.com
Compuware Corporation
www.compuware.com
Dale Carnegie Training
www.dale-carnegie.com

Dana Commercial Credit
www.dana.com/dcc
DataWorks
www.dataworks.com
Datek Online
www.datek.com
Digital PC
www.windows.digital.com
Diners Club International
www.dinersclub.com
J.D. Edwards & Company
www.jdedwards.com
Ericsson
www.ericsson.se
Equitable/AXA
www.equitable.com
E*TRADE
www.etrade.com
Exide Electronics
www.exide.com
Federal Express
www.fedex.com
Fidelity Investments
www.fidelity.com
FileNET
www.filenet.com
FlexiInternational Software
www.flexi.com
Ford
www.ford.com/
Founders Growth Fund
www.founders.com
Fujitsu
www.fujitsu.com
Fujitsu PC Corporation
www.fujitsu-pc.com
Gateway 2000
www.gateway.com
General Motors
www.gm.com
General Motors-OnStar
www.onstar.com

GTE
www.gte.com
Hammermill
www.hammermillpaper.com
Hewlett-Packard
www.hp.com
Hilton Hotels & Resorts
www.hilton.com
Hitachi
www.hitachi.com
Hoechst
www.hoechst.com
Honda
www.honda.com
Hyatt Hotels Corporation
www.hyatt.com
IBM
www.ibm.com
Intel
www.intel.com/
International Institute for Management Development
www.imd.ch/
International Paper
www.ipaper.com
Invesco
www.invesco.com
Iomega
www.iomega.com
ITT Hartford
www.ithartford.com
Kinko's Corporate
www.kinkos.com
Lawson Software
www.Lawson.com
Lexus
www.lexus.com
Lincoln-Mercury
www.lincolnm Mercury.com
Lotus
www.lotus.com
Lucent Technologies
www.lucent.com
Lufthansa
www.lufthansa-usa.com
MCI
www.mci.com
Mercedes-Benz
www.usa.mercedes-benz.com
Merrill Lynch
www.ml.com/
Microsoft
www.microsoft.com/

Mitsubishi Electronics America, Inc./Electronic Device Group
www.mitsubishichips.com
Mitsubishi Motor Sales of America
www.mitsucars.com
MOVADO
The Museum Watch
www.movado.com
NCR
www.ncr.com
Network Associates
www.nai.com
Norfolk Southern
www.nscorp.com
Nortel
www.nortel.com
Northrop Grumman
www.northgrum.com
Northwest Airlines
www.nwa.com
Oracle Corporation
www.oracle.com
PeopleSoft
www.peoplesoft.com
Praxair
www.praxair.com
QAD Inc.
www.QAD.com
QUALCOMM
www.qualcomm.com/cdma
Roberts Express, Inc.
www.roberts.com
SAP
www.sap.com
SAS Institute
www.sas.com/
Savin
www.sales@savin.com
Charles Schwab
www.schwab.com
Seagate
www.seagate.com
Siemens Corporation
www.siemens.com
Siemens Microelectronics
www.smi.siemens.com
SkyTel
www.skytel.com

Sprint
www.sprint.com
StorageTek
www.storageTek.com
Sun Microsystems
www.sun.com
Sybase
www.sybase.com
Symantec
www.symantec.com
Symbios Logic
www.symbios.com/bw
Texas Instruments
www.ti.com
TIBCO
www.tibco.com
Tivoli
www.tivoli.com
Toshiba America Information Systems
computers.toshiba.co
Toyota in America
www.toyota.com/usa
Toyota Motors
www.toyota.com
T. Rowe Price
www.troweprice.com
Unisys
www.unisys.com
United Technologies
www.utc.com
UPS
www.ups.com
US Airways
www.usairways.com
USPS Priority Mail
USPS.supplies.gov
US Web
www.usweb.com
UUNET Technology
www.uu.net
The Vanguard Group
www.vanguard.com
Visteon
www.visteonet.com
Visio
www.visio.com
Xerox
www.xerox.com

BusinessWeek

www.businessweek.com

hyatt.com click, click you're here!

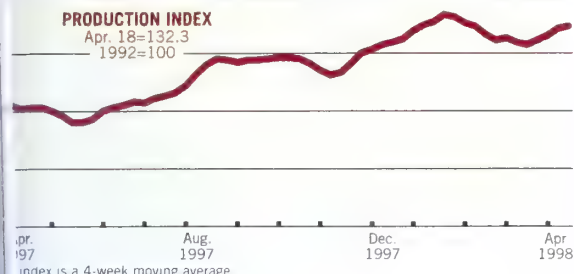


Feel the Hyatt Touch

Business Week Index

PRODUCTION INDEX

Change from last week: 0.2%
Change from last year: 5.6%



Production index rose for the fourth week in a row, while the unaveraged fell to 131.5, from 132.8. After seasonal adjustment, lumber output (mill-freight traffic) were up. Steel production was down 1.9%, with a utilization rate of only 89.4%, the lowest it has been in months. Output was down by 2.8%, with large decreases in Virginia and Indiana. Production of autos, trucks, electricity, and oil were also down.

Index copyright 1998 by The McGraw-Hill Companies

LEADING INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
PRICES (4/24) S&P 500	1107.90	1122.72	44.8
RATE BOND YIELD, Aaa (4/24)	6.72%	6.67%	-13.3
SUPPLY, M2 (4/13) billions	\$4,146.2	\$4,146.7r	6.6
CLAIMS, UNEMPLOYMENT (4/18) thous	317	288r	-0.3
HOUSEHOLD APPLICATIONS, PURCHASE (4/24)	241.4	227.3	28.6
HOUSEHOLD APPLICATIONS, REFINANCE (4/24)	1,157.0	1,087.0	323.5

Sources: Standard & Poor's, Moody's, Federal Reserve, Labor Dept., Mortgage Assn. (Index: March 16, 1990=100)

INTEREST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
MONEY FUNDS (4/28)	5.28%	5.37%	5.53%
GOVERNMENT BOND (4/28) 3-month	5.51	5.47	5.72
RATES OF DEPOSIT (4/29) 3-month	5.61	5.58	5.72
MORTGAGE (4/24) 30-year	7.19	7.06	8.22
FIXED RATE MORTGAGE (4/24) one-year	5.77	5.84	6.05
1/24)	8.50	8.50	8.50

Sources: Federal Reserve, HSH Associates, Bloomberg Financial Markets

Seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

THE WEEK AHEAD

INDEX

May 5, 10 a.m. EDT ▶ The Conference Board's index of leading indicators rose 0.1% in March, on top of February's 0.6% gain, says the median forecast of economists polled by Standard & Poor's. The index is owned by The McGraw-Hill Companies.

INVENTORIES

May 6, 10 a.m. EDT ▶ The increase in factory output suggests that inventories grew little if at all in the month. Inventories rose 0.5% in February.

WORK

May 6, 2 p.m. EDT ▶ The Federal Reserve's roundup of regional economic

activity will give anecdotal readings of local business trends, including how labor shortages are affecting wages. The Beige Book is being prepared in advance of the May 19 policy meeting.

PRODUCTIVITY AND COSTS

Thursday, May 7, 10 a.m. EDT ▶ Output per hour worked at nonfarm businesses probably had little or no growth in the first quarter after rising at a 1.6% annual rate in the fourth. For the year, productivity would be up about 1.8%. Without efficiency gains to offset much of the rise in compensation, unit labor costs likely grew at an annual pace of 3% or so last quarter, after advancing 3.3% in the fourth quarter.

PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (4/25) thous. of net tons	2,200	2,148#	6.9
AUTOS (4/25) units	120,096	105,753r#	-9.0
TRUCKS (4/25) units	147,322	121,104r#	37.0
ELECTRIC POWER (4/25) millions of kilowatt-hrs.	56,527	56,175#	0.1
CRUDE-OIL REFINING (4/25) thous. of bbl./day	14,895	15,157#	4.3
COAL (4/18) thous. of net tons	20,156#	20,623	-3.6
LUMBER (4/18) millions of ft	498.4#	482.1	-1.3
RAIL FREIGHT (4/18) billions of ton-miles	26.5#	26.1	1.1

Sources: American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, American Petroleum Institute, Energy Dept., WWPAl, SFPA2, Association of American Railroads

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (4/29) \$/troy oz.	308.250	312.800	-9.4
STEEL SCRAP (4/28) #1 heavy, \$/ton	133.50	133.50	0.0
COPPER (4/24) ¢/lb.	87.6	86.8	-24.1
ALUMINUM (4/24) ¢/lb.	69.8	69.8	-8.2
COTTON (4/25) strict low middling 1-1/16 in., ¢/lb.	61.62	61.05	-10.9
OIL (4/28) \$/bbl	15.49	15.13	-23.1
CRB FOODSTUFFS (4/28) 1967=100	233.24	231.85	-1.8
CRB RAW INDUSTRIALS (4/28) 1967=100	306.21	300.33	-8.1

Sources: London Wednesday final setting, Chicago market, Metals Week, Memphis market, NYMEX, Commodity Research Bureau

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (4/29)	132.05	130.76	126.95
GERMAN MARK (4/29)	1.79	1.79	1.73
BRITISH POUND (4/29)	1.67	1.67	1.62
FRENCH FRANC (4/29)	6.01	6.01	5.84
ITALIAN LIRA (4/29)	1773.0	1771.9	1712.2
CANADIAN DOLLAR (4/29)	1.44	1.43	1.40
MEXICAN PESO (4/29) ³	8.499	8.459	7.944
TRADE-WEIGHTED DOLLAR INDEX (4/29)	110.4	109.9	107.1

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars. Trade-weighted dollar via J.P. Morgan

INSTALLMENT CREDIT

Thursday, May 7, 3 p.m. EDT ▶ Consumers probably took on \$4 billion in new debt in March, says the S&P MMS survey, on top of the unexpectedly large addition of \$7 billion in February.

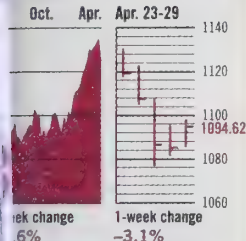
EMPLOYMENT

Friday, May 8, 8:30 a.m. EDT ▶ The S&P MMS median forecast expects that 235,000 jobs were created in April, with manufacturing continuing to add workers. In March, payrolls dropped 36,000, but the low level of unemployment claims for the month suggest that the decline may be revised to show an increase. The employment rate likely remained at 4.7%.

Investment Figures of the Week

CKS

P 500



MENTARY

U.S. financial markets clouded by interest-rate rises. Concern about rising rates sent 30-year bond rates up 10 basis points, to 6.75%, on Apr. 27. That led to a sell-off in stocks. The Dow industrial average fell 100 points, its worst loss since Jan. 9. Interest-rate-sensitive stocks, such as banks and homebuilders, led the decline, which was sparked by reports that the Federal Reserve might raise rates. NASDAQ stocks, especially hard hit, staged a mild recovery on Apr. 29.

U.S. MARKETS	Latest	% change Week	% change Year
Dow Jones Industrials	8951.5	-2.5	27.7
NASDAQ Combined Composite	1851.6	-3.4	46.9
S&P MidCap 400	370.5	-2.7	44.1
S&P SmallCap 600	199.3	-3.2	43.7
S&P SuperComposite 1500	234.9	-3.1	37.6

SECTORS	Latest	% change Week	% change Year
Bloomberg Information Age	345.1	-2.7	41.1
S&P Financials	132.4	-5.3	45.6
S&P Utilities	236.1	-2.3	26.9
PSE Technology	356.3	-1.2	42.4

FOREIGN MARKETS	Latest	% change Week	% change Year
London (FT-SE 100)	5833.1	-1.7	31.5
Frankfurt (DAX)	5108.5	-4.7	48.6
Tokyo (NIKKEI 225)	15,395.4	-2.3	-19.6
Hong Kong (Hang Seng)	10,471.2	-4.6	-18.8
Toronto (TSE 300)	7609.5	-2.7	27.3
Mexico City (IPC)	5028.7	-2.6	33.9

FUNDAMENTALS	Latest	Week ago	Year ago
S&P 500 Dividend Yield	1.43%	1.38%	1.86%
S&P 500 P/E Ratio (Last 12 mos.)	25.9	26.9	20.1
S&P 500 P/E Ratio (Next 12 mos.)*	21.4	22.2	16.6
First Call Earnings Surprise*	2.65%	2.88%	3.52%

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 200-day average	983.4	978.6	Positive
Stocks above 200-day average	57.0%	65.0%	Neutral
Options: Put/call ratio	0.54	0.47	Negative
Insiders: Vickers Sell/buy ratio	3.18	3.09	Negative

Data: Bloomberg Financial Markets; *First Call Corp.

BEST-PERFORMING GROUPS	Last month%	Last 12 months%
Computer Systems	11.5	Broadcasting 103.5
Entertainment	11.4	Specialty Appar. Retailers 99.7
Shoes	9.1	Homebuilding 93.1
Gold Mining	7.6	Communications Equip. 92.1
Defense Electronics	7.4	Personal Loans 77.1

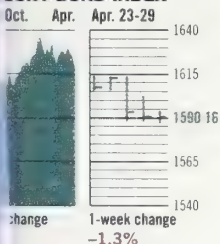
WORST-PERFORMING GROUPS	Last month%	Last 12 months%
Commercial Services	-15.2	Metals -29.2
Tobacco	-12.1	Engineering & Constr. -19.0
Food Chains	-9.8	Shoes -12.9
Engineering & Constr.	-9.6	Photography/Imaging -12.7
Leisure Time	-8.4	Tobacco -5.2

BLOOMBERG MONEY FLOW ANALYSIS

Rebound ahead? Stocks with most significant buying on price weakness	Price	1-month change
Chase Manhattan	133 3/8	-1/8
Oracle	26 1/4	-5 1/16
AT&T	59 9/16	-7 3/8
Beneficial	123 3/4	-3/4
Lockheed Martin	111	-1/2
Motorola	55 7/8	-1 9/16
Decline ahead? Stocks with most significant selling on price strength	Price	1-month change
Microsoft	89 7/8	1 15/16
Pfizer	113 3/8	15 9/16
Cisco Systems	70 7/8	3 7/16
Infoseek	33	14 3/8
Eli Lilly	68 7/8	10 5/8
Lernout & Hauspie Speech Prod.	60 5/8	18 3/16

EST RATES

SURVY BOND INDEX



Data: Bloomberg Financial Markets

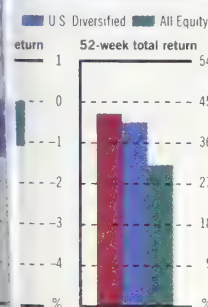
KEY RATES	Latest	Week ago	Year ago
MONEY MARKET FUNDS	5.10	5.10	5.08
90-DAY TREASURY BILLS	5.05	5.09	5.28
6-MONTH BANK CDS	5.07	5.08	5.23
1-YEAR TREASURY BILLS	5.48	5.41	5.90
10-YEAR TREASURY NOTES	5.81	5.68	6.72
30-YEAR TREASURY BONDS	6.07	5.96	6.95
LONG-TERM AA INDUSTRIALS	6.66	6.55	7.47
LONG-TERM BBB INDUSTRIALS	7.10	7.01	7.92
LONG-TERM AA TELEPHONES	6.91	6.80	7.71

BLOOMBERG MUNI YIELD EQUIVALENTS

Taxable equivalent yields on AAA-rated, tax-exempt municipal bonds, assuming a 31% federal tax rate.

	10-yr. bond Latest week	30-yr. bond Latest week
GENERAL OBLIGATIONS	4.58%	4.48%
PERCENT OF TREASURIES	78.89	78.88
TAXABLE EQUIVALENT	6.64	6.49
INSURED REVENUE BONDS	4.75	4.64
PERCENT OF TREASURIES	81.82	81.70
TAXABLE EQUIVALENT	6.88	6.72

AL FUNDS



EQUITY FUNDS

Leaders	Four-week total return	%	Laggards	Four-week total return	%
Lexington Strat. Invmt.	19.7		Matthews Korea I	-13.3	
Gabelli Gold	10.7		Montgomery Emerg. Asia R	-9.7	
Evergreen Prec. Metals B	9.8		DFA Pacific Rim Small Co.	-9.6	
Am. Cent. Global Gold	9.2		Lex. Crosby Sm. Cap Asia	-8.9	
Van Eck Intl. Inv. Gold A	9.2		Kemper Asian Growth A	-8.4	
Leaders	52-week total return	%	Laggards	52-week total return	%
Delaware Aggressive Gr. A	104.3		Matthews Korea I	-54.1	
Munder Micro-Cap Equity Y	94.4		Lex. Crosby Sm. Cap Asia	-49.5	
Weitz Hickory	92.3		U.S. Global Investors Gold	-49.5	
Safeco Growth No Load	87.3		Morgan Stan. Asian Grth. C	-48.1	
Texas Capital Val. & Grth.	85.9		Morgan Stan. Inst. Asia Eq. A	-48.0	

EQUITY FUND CATEGORIES

Leaders	Four-week total return	%	Laggards	Four-week total return	%
Precious Metals	6.7		Pacific/Asia ex-Japan	-5.6	
Technology	2.4		Real Estate	-3.8	
Europe	0.8		Utilities	-3.8	
Natural Resources	0.5		Diversified Pacific/Asia	-3.5	
Foreign	0.1		Health	-2.2	
Leaders	52-week total return	%	Laggards	52-week total return	%
Communications	55.9		Pacific/Asia ex-Japan	-33.4	
Financial	52.8		Diversified Pacific/Asia	-25.2	
Small-cap Blend	46.3		Precious Metals	-21.5	
Small-cap Growth	46.2		Japan	-12.2	
Large-cap Growth	43.5		Diversified Emerging Mkts.	-8.4	

THE FED IS ON BUBBLE PATROL

Throughout history, financial bubbles have had telltale characteristics: At the outset, new profit opportunities draw investors. As prices rise and buyers are swept up in the euphoria, easy money fuels the process. Soon, mob psychology takes over. But as time passes, people become uneasy about the dizzying heights prices have scaled and start to pull out. Amid a mad scramble for the exits, the bubble bursts.

Today's stock market bears some of these characteristics (page 28). Trading has certainly seemed frenzied and irrational, and valuations have gotten historically high. But for the overall market, they haven't touched the 50 or so times earnings Japan's Nikkei stock market exhibited a decade ago. And while U.S. money growth has picked up over the past three years, it hasn't lubricated the market's runup the way Japanese money growth did for many years. Most important, though, the U.S. market's performance hasn't triggered the boom conditions that can unravel entire industries and economies. Real estate prices, while climbing, haven't reached the stratosphere, and inflation hasn't taken off.

Still, this is a market that makes people uneasy, and with reason. Simply put, corporate earnings don't seem to justify current valuations. Defenders point out many props to the market, from the weight of baby boomer demand to the appeal of the U.S. as a safe haven. But stock prices reflect investors' expectations of future earnings, and it has become apparent in recent weeks that investors have probably been too optimistic.

Reported earnings for the 386 of the Standard & Poor's 500-stock index whose results are in for the first quarter are running nearly 5% below estimates. When the Fed let it be known that it might lean toward raising rates in May, it immediately put a damper on the market. In the end, the Fed may not opt to raise rates. Certainly, continued weakness in Japan and much of Asia suggests that the Fed should be cautious about pushing U.S. rates higher at this time. But simply by signaling its inclination, the Fed took some wind out of the market's sails. And that looks like a good thing.

CONSUMERS DESERVE BETTER DRUG DATA

The phenomenon that is Viagra is but the latest and most spectacular example of a powerful trend sweeping the drug industry—so-called lifestyle drugs that ameliorate chronic conditions from impotence to arthritis to depression. Increasingly, such drugs appeal to a wide swath of users, many of them baby boomers and many of them people seeking “off-label” use. Medical experts believe that a large part of the market for Viagra, for instance, is among normally potent men who are looking to improve their sexual performance.

These blockbuster drugs may seem like a godsend, they bring with them a slew of problems for the medical profession, insurers, government, and consumers (page 92). cause off-label use is so prevalent, doctors need to be vigilant about the the drugs' possible side effects and their interactions with drugs patients are already taking. Look at what happened with Fen-Phen, two drugs not meant to be used in combination. Prescribed for weight loss, they led to heart valve problems in some patients.

Evidence shows that doctors have been sloppy about monitoring drug use. In one survey, the Food & Drug Administration found that 70% of patients were not told about side effects. Meanwhile, the FDA relies on doctors' voluntary reporting of problems. If the medical profession doesn't do a better job of tracking reactions to drugs, perhaps the FDA should require formal monitoring.

Of course, some drugs have effects that aren't known for years—witness breast-cancer drug Tamoxifen's possible increase in the risk of uterine cancer a decade later. But a patient who dies today may gladly chance getting a life-threatening disease in 10 years. Not so, perhaps, with someone popping pills to counter baldness. Lifestyle drugs change every consumer's risk-benefit calculus—and require patients to assume greater responsibility. But they need more information. The way to get it is for more patients to be enrolled in clinical trials. Today, only 3% to 5% of potential users of new drugs participate; experts think 10% would yield more useful data. Insurers should help shoulder the cost of broader clinical trials. They shouldn't, however, be expected to cover the costs of off-label or “enhancement” uses of new drugs.

SAVE COMPETITION IN AMERICA'S SKIES

Do domestic airline alliances make any sense? For decades, U.S. carriers have been forming alliances with overseas carriers, an innocuous enough move that expands service and routes for customers who may be traveling out of the U.S. But the rationale for the three domestic alliances that works now—between American Airlines and US Airways, Continental Airlines and Northwest Airlines, and Delta Lines and United Airlines—seems flimsy (page 32). Advocates say it will lead to more seamless travel, better connections, and broader use of frequent-flier miles. Laborers, consumers, and smaller airlines see it another way: The big airlines are getting bigger without even having to merge financially, and they'll cut costs, raise prices, and cut routes in the process.

Critics are probably imputing greater organizational strength to the airlines than they actually possess. After all, carriers in the international alliances seem to shift regulatory burdens. Still, it's worthwhile for the Justice Dept. and the Transportation Dept. to take a hard look at these partnerships and arrangements. Airline ticket prices rose at a 37% annual rate in the first quarter. Washington needs to ensure that airlines don't become a cartel.

May 18
ALER DEAL
t It
ld Mean

AND INTEL
Antitrust Cops:
What They Want

ROCKEFELLER
Exclusive
Book Excerpt

3 9042 04586688 3
Full Results for
900 Companies

BusinessWeek

8, 1998

A PUBLICATION OF THE MCGRAW-HILL COMPANIES

\$3.95

JAPAN'S REAL CRISIS

The Scary
Truth About
Its Hidden
Debt

BRIAN BREMNER



BURLINGAME
MAY 8 - 1998
LIBRARY

BURLINGAME PUBLIC LIBRARY
480 PRIMROSE RD
BURLINGAME CA 94010-4010

01010-4010
#BXBGDD**5-DIGIT
#0602 1058111600#JAN99 14L
00899

cro
nin



sometimes **you have**



From: Microsoft Office 97
Sent: Thursday, 7:15 p.m.
To: Project Team
Re: The fat lady is about to sing...

Surrounding every great idea is a steaming heap of busywork. And you, the owner of that great idea, get to do it all. That's why Microsoft Office 97 was designed to get the busywork out of your way. It's a suite of smart productivity tools fully integrated onto your desktop and into the Internet. So while you're pounding away at your thoughts, Microsoft Word is correcting your flubs on the fly. As e-mail comes in, AutoPreview in the Outlook™ desktop information manager lets you know what's important and what's a yard sale. Find relevant information on the Web and drop it straight into your work, automatically formatted into links. With Microsoft Excel's natural language formulas, give row and column headings names like "Sales" and "Profit" instead of "G3" and "F19." Office 97 does the thinking that lets you do your thinking. So your ideas can emerge from the paperwork bigger than life. Check out Office 97 at www.microsoft.com/office97

business,
to give 110%.
is the 10%.



There was a time when hauling 7,300 pounds was unheard of in the class.⁷ Now, with Durango's maximum available towing capacity, it's all in a day's play.



Durango's theater-style seating has a patented Fold-and-Tumble™ feature that you'll just flip over. It lets passengers in the optional third row get in—and out—with ease.

We've raised



Raising the roof above the second and third row seats yielded two benefits. We created more headroom. And we were able to design the seats theater-style, with the rear rows in progressively more elevated positions. Now, everybody gets a great view.



To help passengers keep their cool, Durango offers a separate rear compartment cooling system.



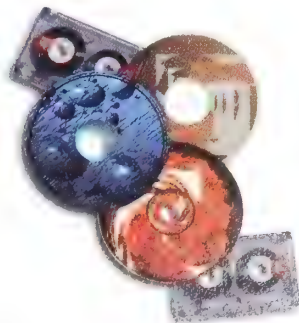
Durango's strongest-in-class frame is one reason for its best-in-class maximum available towing capacity.[†] The legendary capability of Dodge Magnum® engines is another.

ne roof.



With up to 88 cubic feet of room, Durango's cargo capacity is best-in-class. How do you top that? With a standard roof rack, of course.

An optional stereo system with Infinity® speakers lets you switch from CD to cassette at the push of a button.



Durango  **The New Dodge**

For more information call 1-800-4-A-DODGE. Or visit our Web site at www.4adodge.com

[†]Available feature comparisons vs. domestic compact SUV models. Excludes other Chrysler Corp. vehicles. All comparisons based on data available at time of printing.

Always use seat belts. Remember a backseat is the safest place for children.

COVER STORY

JAPAN'S CRISIS

A vast chasm of hidden debt is sapping the nation's confidence

page 136

BusinessWeek

MAY 18, 1998

WEB WARS

Sites try to grab more viewers by making alliances

page 162



Cover Story

136 JAPAN'S REAL CRISIS

Beyond the banks' bad loans and the Nikkei's drop, the nation has hidden debt—in the hundreds of billions—off the balance sheets of companies and government bodies. No one knows the full scope of the problem, but the numbers are scary. There is little chance of recovery until the mess is cleared up

140 COMMENTARY: IS THE U.S. NEXT?

Why a Japan-style crisis isn't likely

144 COMMENTARY: JAPAN'S PARALYSIS

Why Japan won't act to save itself

News: Analysis & Commentary

34 THE COPS CONVERGE ON MICROSOFT

Federal trustbusters are ready to pounce with a suit to change Win98—and the states aren't far behind

36 YOU'RE NEXT, INTEL

The FTC may slap the chipmaker with an antitrust suit

37 COMMENTARY: MICROSOFT

Its spin campaign against antitrust enforcers is all hot air

38 ALL QUIET ON THE WIN98 FRONT

Microsoft's latest launch will be low-key

40 DAIMLER AND CHRYSLER

The carmakers bring complementary strengths to the proposed merger

42 COMMENTARY: THE NEW EUROPE

Why the Daimler deal is a watershed

43 THE TROUBLE WITH AUTO REBATES

Incentives won't boost car sales for long

44 COMMENTARY: CANCER DRUGS

Miracle cure? Don't hold your breath

46 VEXED BY THE VOLCANIC NEWT

Corporate America frets over the return of Gingrich's belligerent style

47 IN BUSINESS THIS WEEK

International Business

50 SOUTH KOREA

In the wake of the currency crisis, the *chaebol* are unloading assets fast

51 SOUTH KOREA

Some companies are doing just dandy

54 INDIA

Why New Delhi is picking on Pepsi

56 MEXICO

Consumers could overheat the economy

61 INTERNATIONAL OUTLOOK

Will a new breed of strongmen undermine Latin democracy?

Economic Analysis

26 ECONOMIC VIEWPOINT

Becker: A way to say good-bye to tollbooths and traffic jams

28 ECONOMIC TRENDS

IRA savers, a dearth of dividers: freshmen want the money

31 BUSINESS OUTLOOK

U.S.: The economy may take a breather
France: Plenty of growth on the horizon

Government

49 WASHINGTON OUTLOOK

Why U.S.-Russian relations are on a roller coaster for Siberia

Book Excerpt: Titan

64 THE MONOPOLY THAT WENT TO RUIN

Ron Chernow's new book examines Rockefeller's anticompetitive practices that made Standard Oil a target of reform

67 ROCKEFELLER'S ENDGAME

How the Standard Oil drama unfolded

OPOLY
et Bill
s—the
efeller
was the
rust
a
e
ury



SHOWDOWN
Justice steadies its
aim at Win98 page 34

PROFIT LETDOWN
First-quarter earnings
were up—but paled
against last year's page 168



FLYING
price-
s
re
ap,
t



HEAVY METAL
Is Chrysler-Daimler
the start of a car
merger wave? page 40

**LAMPOON
LAND**
Parodies
are in vogue
on Madison
Avenue
page 130



ts Business

ONEY HELP YOUR GOLF GAME?
new high-tech clubs sure are
but it's unclear how much they
wer your handicap
ATE COMES TO THE FORE
d guard says today's smooth-
golf balls threaten the game

Corporation

GS ARE DEFLATING TRW
co parts unit is a drag on the
company

nce & Technology

T FROM THE LAB: HUMAN SKIN
DA will soon approve use of living
grown by two biotech outfits
OPMENTS TO WATCH
ring magnetism, Lego robots,
g explosives

Marketing

Y ADS
are savaging Mad Ave, and
isers are mimicking the technique

Finance

- 148 ARE P-E RATIOS TOO HIGH?**
They're soaring—but they're not as
loony as they look
- 150 COMMENTARY: THE SEC**
The agency is passing the buck on
monitoring shady microcap stocks
- 151 K-TEL FEVER**
Why the stock is on a wild ride
- 154 COMMENTARY: BANK BROKERAGES**
Exempting them from SEC regulation is
a recipe for disaster
- 158 INSIDE WALL STREET**
- 209 INVESTMENT FIGURES OF THE WEEK**

Information Technology

- 30 TECHNOLOGY & YOU**
Taking Win98 for a test drive
- 162 A SITE FOR MORE EYES**
Why search engines and other "portals"
are madly making alliances
- 164 U S WEST SCOUTS NEW FRONTIERS**
It turns to digital services after a
phone-cable TV misstep

Corporate Scoreboard

- 168 A DOWNTURN FOR EARNINGS**
First-quarter profit growth is down.
Blame the attributes of prosperity: A
strong dollar and a tight labor market
- 170 HEFTY BENEFIT HIKES ARE COMING**
A tight labor market cuts wiggle room

Personal Business

- 200 ADOPTION:** From Russia with red tape
- SMART MONEY:** Junk bonds grow up
- FEEDBACK:** PC Hell, Part II
- FUND WATCH:** Rockland Growth Fund

Features

- 6 UP FRONT**
- 12 EDITOR'S MEMO**
- 12 READERS REPORT**
- 22 BOOKS**
Saltzman: *Portrait of Dr. Gachet: The
Story of a van Gogh Masterpiece*
- 207 BUSINESS WEEK INDEX**
- 208 INDEX TO COMPANIES**
- 210 EDITORIALS**

Up Front

EDITED BY ROBERT McNATT

DEJA VU

NEXT, THEY'LL BE OFFERING GREEN STAMPS

IN THE GOOD OLD DAYS, AS anyone can tell you, drivers didn't pay for road maps. Well, the good old days are back, at least at Exxon USA. The oil giant is reviving the practice as part of its Driver-

with diaper-changing tables, music at the service islands, a larger and better choice of food, and a 39¢ cup of Joe. And, yes, free maps.

Oil companies have seen the benefit of more user-friendly gas stations ever since Arco began accepting ATM cards at its gas pump islands in the early 1980s. And giving drivers that warm and fuzzy feeling away from the pumps also has become

increasingly important. Shell, for instance, sells tchotchkes with its famous logo from a store in Houston's upscale Galleria. Analysts say that Exxon, with its Driver-Friendly program, is now definitely upping the ante in the gas station wars. Just don't hold your breath for 29¢-a-gallon gas. □



Friendly campaign, a two-year program to upgrade 8,500 Exxon gas stations.

"Our research on driver behavior shows that they like life in the car, but they hate life on the road," says Jim Carter, marketing vice-president. Driver-Friendly already has begun in Texas. Among the highlights: rest rooms

UNION DUES

DID THE FEDS NUDGE OUT A LABOR BOSS?

DID THE LEADER OF ONE OF the country's most successful unions agree to step down when a federal monitor ended its oversight of the union's affairs? That's what union insiders are saying about Edward Hanley, longtime head of the Hotel Employees & Restaurant Employees International Union.

HERE has been one of the AFL-CIO's star performers, organizing thousands of workers in recent years at Las Vegas casinos. But HERE was also one of four unions, including the Teamsters, linked to the mob by a 1985

federal report. The Justice Dept. claimed that Hanley gained the top job in 1973 with help from Chicago crime figures. However, Justice has never found evidence of wrongdoing on Hanley's part since the allegations were made 20 years ago. Nor has a federal monitor appointed in 1995 to supervise HERE.

That oversight ended in March. Union officials now expect Hanley to announce his retirement, perhaps as early as HERE's May 18 executive board meeting. A spokesman denies all mob allegations and any deal to end the monitorship. Hanley's likely successor? John Wilhelm, his No. 2, who added 30,000 members in Las Vegas. Aaron Bernstein



HANLEY: To retire

TALK SHOW "Not everybody wants to work for the IRS right now."

—Commissioner Charles Rossotti at Senate hearings on IRS abuses



SKEPTIC: We at his vineyard

billion-a-year drug. It was medicine remedied a partially life-threatening condition. Drug makers should be charged

AFTERLIVES

VINO SI, VIAGRA NO

DON'T COUNT HENRY WENDT, SmithKline Beecham's former chief executive, among the hordes smitten with Viagra, Pfizer's phenomenally successful "love drug." Now that Wendt, 64, has retired from the daily grind of the pharmaceutical business, he's quick to inject a dose of skepticism into the industry's appetite for more quality-of-life drugs such as Pfizer's impotence pill.

Only 12 years ago, he says, SmithKline's ulcer fighter, Tagamet, became the first \$1

"in the business of producing products for serious conditions," he says. Moreover, he thinks that Viagra could be bad for business in the run: Strong demand for the \$10 pill could reawaken demands for government controls.

Wendt retired from SmithKline in 1994 after 25 years. These days, his interests in chemistry mainly concern fermentation: He and his wife, Holly, run a winery, Quivira Vineyards, in Northern California. Wendt estimates about 20,000 cases of Quivira wines annually. The wine tail for \$11 to \$18 a bottle, a few bucks more than a bottle of Viagra. Joseph V.

THE LIST SOMEBODY STILL LOVES DETROIT

Cars built by American companies have been losing market share steadily to foreign manufacturers. However, when it comes to customers who choose to buy or lease a new version of the same car as the one they already have, Detroit iron still has its fans, according to the second annual Polk Automotive Household Loyalty Awards. The Polk



MERCURY Loyal follows

awards for the 1997 model year recognized General Motors for the highest manufacturer loyalty among car buyers (68.7%) and Ford for the highest model loyalty (59.5%).

MODEL SEGMENT	WINNER	LOYALTY PERCENT	AVG. LOY. IN THE SEG.
LARGE CAR	MERCURY GRAND MARQUIS*	40.5%	27.7
MIDSIZE CAR	TOYOTA CAMRY	33.4	19.0
SMALL CAR	FORD ESCORT*	29.9	17.7
LUXURY CAR	LINCOLN TOWN CAR*	44.9	23.0
SPORT UTE	JEEP GRAND CHEROKEE	28.6	21.1

*Repeat winner from 1996

SOURCE: THE POLK CO.

**Dean Witter
Dividend Growth Securities**

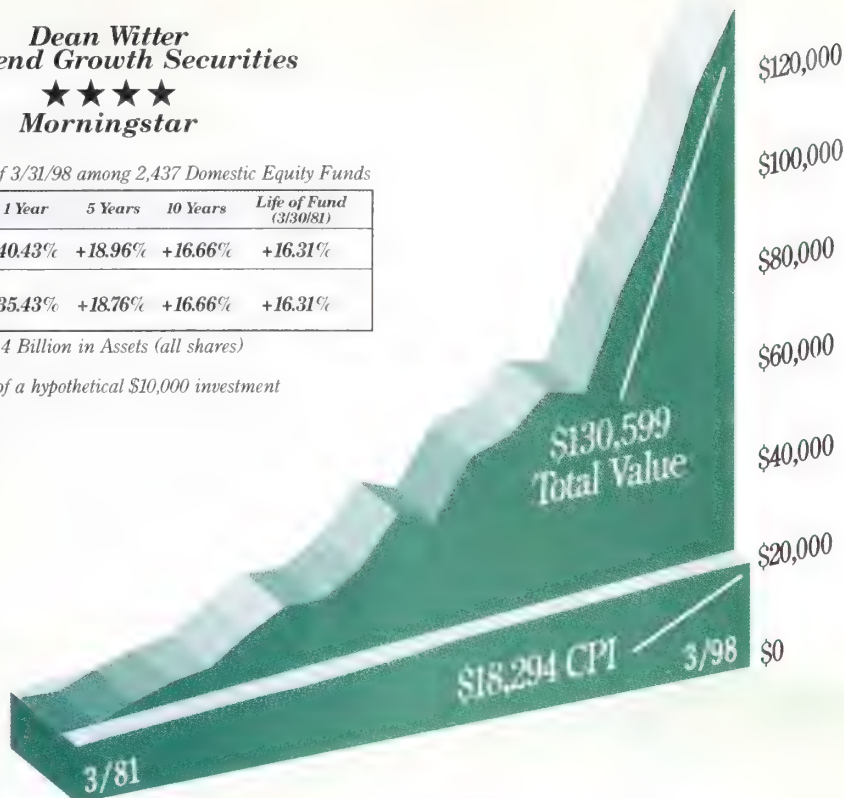
★★★★★
Morningstar

Overall Rating as of 3/31/98 among 2,437 Domestic Equity Funds

Class B As of 3/31/98	1 Year	5 Years	10 Years	Life of Fund (3/30/81)
Average Annual Total Returns*	+40.43%	+18.96%	+16.66%	+16.31%
SEC Standardized Avg Annual Total Returns*	+35.43%	+18.76%	+16.66%	+16.31%

\$18.4 Billion in Assets (all shares)

Growth of a hypothetical \$10,000 investment



Don't you wish you had seen this ad in 1981?

Of course you do. Over the past 17 years, the **Dean Witter Dividend Growth Securities** fund, in up markets and down, provided consistent growth and income for 100,000 investors.

But the impressive numbers don't end there. Dean Witter has a network of over 100 Account Executives, each with the



1-800-THE-DEAN

www.deanwitter.com/intercapital

experience to give you the investment advice that's right for your individual goals.

Remember, past performance cannot guarantee future results, and you may have a loss or gain when you sell your shares.

Call Dean Witter today for more information on these and other impressive numbers. And for the office nearest you.

WE MEASURE SUCCESS ONE INVESTOR AT A TIME



DEAN WITTER

For a free brochure and a prospectus, which contains complete information on risks, charges and expenses. Read the prospectus carefully before you invest or send money. The graph illustrates a hypothetical \$10,000 investment from March 30, 1981, (the Fund's inception date) through March 31, 1998, with dividends and capital gains reinvested at net asset value. It does not reflect the effect of any sales charges. On July 28, 1997, the Fund introduced multiple classes of shares featuring various sales charge structures and ongoing fees. Most shares in the Fund were designated Class B shares, which are subject to a contingent deferred sales charge (CDSC) that starts at 5.00% and declines to zero after six years and only upon the sale of Fund shares. Investment return and principal will fluctuate so that your shares, when redeemed, may be worth more or less than their original purchase price. Performance is no guarantee of future results. Inflation is a measure of the change in the cost of living as monitored by the U.S. Bureau of Labor Statistics.

Morningstar proprietary ratings reflect historical risk-adjusted performance through March 31, 1998. Overall ratings are calculated from the Fund's 3-, 5- and 10-year average annual total returns (when applicable) in excess of 90-day Treasury bill returns (with appropriate fee adjustments) and a risk factor that reflects fund performance below 90-day T-bill returns. These ratings are subject to change each month. Ten percent of the funds in an investment category receive 5 stars, 22.5% receive 4 stars. Dean Witter Dividend Growth Securities Class B received 5 stars for 10 years (of 698 domestic equity funds), 5 years (of 1,363 funds) and 3 years (of 2,437 funds).

The average annual total returns reflect the actual performance of the Fund without taking sales charges into account.

The standardized returns reflect the Fund's contingent deferred sales charge (Class B shares), which applies only if the shares were sold within six years of purchase.

© 1998 Dean Witter Distributors Inc. Member SIPC

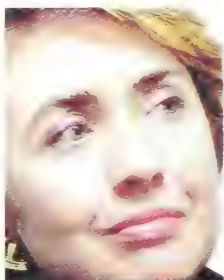
Up Front

MAD AVE

FROM WHITE HOUSE TO OUR HOUSE?

WHILE THE WHITE HOUSE, a manufacturer of smart-card terminals in Britain, decided to catch the attention of American customers for a product launch, it went all the way to the top. Maybe even over the top.

The company sent out 6,500 brochures to potential customers with a full-color close-up of First Lady Hillary Rodham Clinton on the cover. Underneath the photo, the caption blared: "She's stayed loyal to Bill for years. Now discover how she could stay loyal to you." Inside the mailing, Dione asks prospective buyers to see



BAD PITCH:

Hillary and handheld smart-card terminals.

"the other outstanding display of loyalty in Washington" by hearing about satisfied customers at a recent trade show there. It also pitched its handheld smart-card readers and other products at the show. In fine print, a disclaimer on the brochure notes that Clinton is not endorsing the products.

Although Richard Parsons, marketing manager for Dione, admits that the marketing tool was meant to be "particularly intrusive," he says that so far, "the



reaction has been very favorable." He added that to date, the flyer has evoked only one complaint. The First Lady's office declined comment. On the other hand, no one knows how Kenneth Starr feels about all this.

Dennis Blank

SILICON CULTURE

THE DECLINE AND FALL OF THE SLIDE

FOR A WHILE THERE, A SLIDE between floors was the must-have accessory in Silicon Valley offices. But that trend seems to be on the skids.

The ups and downs of this story begin at Macromedia, a San Francisco software company that installed a black playground slide between the second and third floors of its

building in 1994. Then last year, Excite, a search engine company, put in a slide at its Redwood City (Calif.) office. And @Home, an Internet company based next door, decided it wanted a slide, too.

But at an office party in March, five overexuberant sliders suffered injuries—including broken bones, says an

SLICK:

Macromedia insider. So until @Home has banned the slide's use. Says

David Salvavaro, who designed @Home's office: "The last dip or so was a little faster than we thought." @Home says the slide's status is undetermined. But true to Silicon Valley's spirit, it says that its video arcade and ping-pong tables are still fully operational.

Ruth G. Davis



DRAWN & QUARTERED



1978



1988



1998

B-SCHOOL BUSINESS

NICE GUYS FINISH WITH MBAs

WILLING TO BET THAT THIS year's crop of MBA graduates are just a bunch of money-grubbers looking for the fastest pay package? You'd lose. While undergraduates show signs of being more materialistic (page 28), nearly half of this year's top B-school graduates turned down their highest-paying job offer, preferring to work for companies that offered room for personal growth or had a more appealing corporate culture.

That's one conclusion of *The Fuqua Report*, a peri-

odic survey of 1,400 graduating students at 10 top-business schools conducted by Fuqua, the B-school Duke University. The also unmasked a more traditional side of these students. Overall, they rated marriage, health, and ethics as



COSBY: Dads are most admired

career, prestige and wealth. In the MBA grad still admire business success. While 11% of graduates said that the person they admire most was their father, Bill Cosby took second, with 5%, beating their mother with 4%, their spouses, with 2%. Of the above beat out Jesus Christ, who won 1% of the vote.

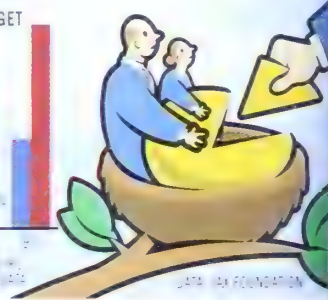
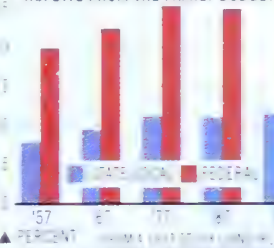
Jennifer Reind

THE BIG PICTURE

HOW TO BALANCE THE BUDGET

Take a bow, taxpayers. Federal and local budgets alike have swung into surplus, thanks, in part, to the larger share of your paycheck going to government.

TAX BITE FROM THE FAMILY BUDGET



FOOTNOTES U.S. kids whose parents help them budget: 76%, whose parents help them save: 56%

MIKE —
CONSERVATIVE
ESTIMATES.
LET ME KNOW —
LEWIS

CROSS

85x11

PROJECTIONS

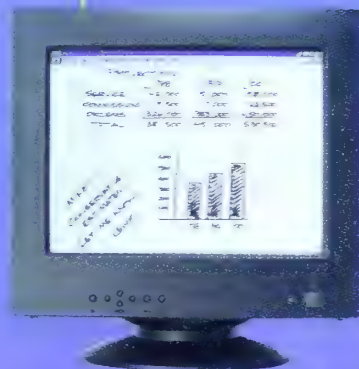
SERVICE	'98	'99	'00
COMMISSIONS	42,000	51,000	58,000
ORDERS	13,500	17,000	22,500
TOTAL	326,000	383,000	451,000



upload

A notepad that uploads to your PC?

(LOOKS LIKE YOUR NOTES JUST GOT A LOT MORE POWERFUL.)



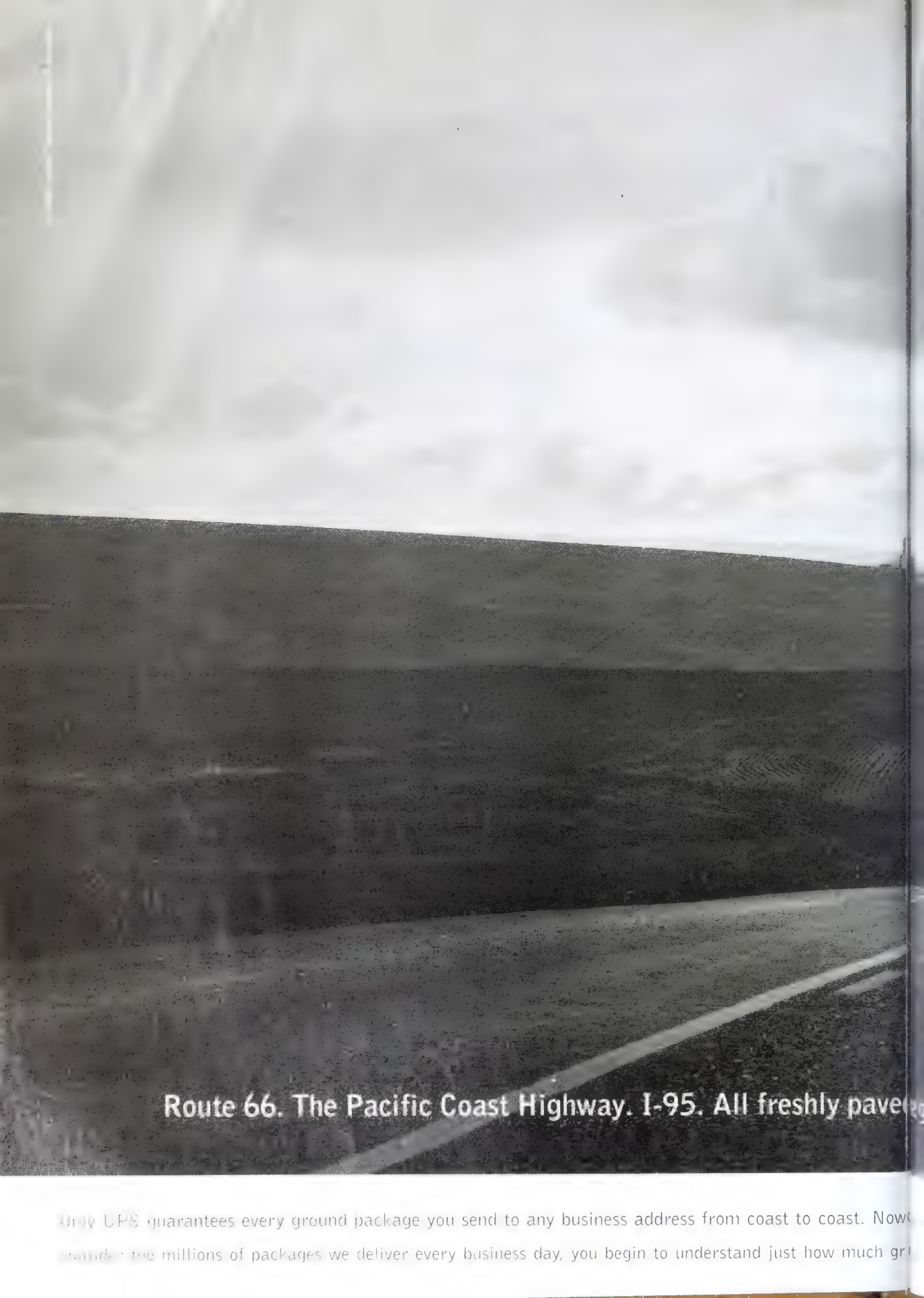
- ▶ store all of your notes on your PC
- ▶ search your notes by keyword or date
- ▶ convert selected handwriting to text
- ▶ cut and paste into other documents
- ▶ e-mail, print, or fax notes from your PC

The CrossPad Web/IBM® Ink Manager™ software. With cross pad software anywhere. At 2.2 pounds and 3/4" thick, it's lighter and slimmer than a laptop. Welcome to the future. 800-510-9660. www.cross-pcg.com.

CrossPad
PORTABLE DIGITAL NOTEPAD



1998 A.T. Cross Company



Route 66. The Pacific Coast Highway. I-95. All freshly paved.

Only UPS guarantees every ground package you send to any business address from coast to coast. Now, when you consider the millions of packages we deliver every business day, you begin to understand just how much ground



the guarantee. **Introducing Guaranteed Ground.** Only from UPS.

in your shipment will arrive by the day it's promised—the precise day—or your money back. And when you
really covers. Go to www.ups.com or call 1-800-PICK-UPS. MOVING at the SPEED of BUSINESS.



EDITOR-IN-CHIEF: Stephen B. Shepard

MANAGING EDITOR: V.

CHIEF ECONOMIST: V.

ASSISTANT MANAGING EDITORS:

Sarah Bartlett, Robert J. Dowling, G. David Wallace

ART DIRECTOR: Malcolm Friedman

CHIEF OF CORRESPONDENTS: James E. Ellis

SENIOR EDITORS: Bob Arnold (New Media), Frank J. Comes, William G. Gass, Geoff Lewis, Paul Raeburn, Kathy Rebelio, Jane A. Sasseen, Susan S. Sasseen

EDITORIAL PAGE EDITOR: Bruce Nussbaum

SENIOR WRITERS: Robert Barker, Anthony Bianco, John A. Byrne, Jeffrey M. Laderman, Gene G. Marcial, Karen Pennar, Otis Port, Gary Weiss

ECONOMICS: James C. Cooper (Sr. Economist/Bus. Outlook ed.), Kathleen Macgan, Michael J. Marde, Economics ed.), Peter Coy

Gene Koretz (Trends ed.), Christopher Farre (Contributing ed.)

INTERNATIONAL: Christopher Power (Asian Edition ed.), Rose Brady (European Edition ed.), Duane E. Anderson, Pete Engardio, Joan Warner (Sr. news eds.), John Templeman (Political affairs), Sheri Prasse (Asia), John Pearson (Latin America), Kerry Capelli (Finance)

ASSOCIATE EDITORS: Catherine Arnt, Aaron Bernstein, Dan Beckie, Amy Dunkin, Rick Green, Neil Gross, Keith H. Hammonds, Kelley Ho and, Larry Light, Ira Sager, Leah Nathans Sp. Co., Fred Strasser, Pat

PICTURE EDITOR: Lawrence Lippmann

SENIOR ART DIRECTOR: Francesca Vessina

DEPARTMENT EDITORS: Books: Hardy Green; Corporations: Nantette Byrnes; Enterprise: V.; Legal Affairs: V.;

Management: V.; Marketing: V.; Markets & Investments: Suzanne Woolley; Money & Banking: Debra Sparks; People: Eric Schine; Personal Business: Edward C. Baig

Personal Finance: Todd Gutter; Scoreboards: Frederick F. Jespersen; Software: Amy Cortese; Technology Strategies: Marcia Stepanek

Telecommunications: Peter Estrom; Up Front: Robert McNatt

STAFF EDITORS: Lor Bongiorno, Heather Green, Joan Oleck, Edith Updike

COPY EDITORS: Prudence Crowther, Harry Maurer, Deputy chiefs, Marc Miller, Jim Tapp (Asst. chiefs), Tim Beknap, Aleta Davies, Jack Robbins, Doug Royalty (Sr.), Giles Bunt, Joseph Marde, Anne Newman, David Pengilly, Mark Perce, Lourdes Valeriano; Researchers: Maria Chapin, Ga

PRODUCTION COPY EDITORS: Lawrence Dark (Chief), Ha berg Ha msson, Celine Keating, B. Kite, Robert S. Norman, Robert J. Rosenberg, Victoria

ART: Jay Petrow, Steven Taylor, Deputy chs., Don Besom, Alice Cheung, Andrew Karmirgan, Christine Silver, Assoc., Peter Marshutz (Asst.),

Graphics & New Media: Arthur Eves (Creative dir.), Joan Danaher, Graphics Dir., Rod Doyle, Assoc., James Bechtel, Alan Baskin, Lisa

Knause, Braman, Alberto Viana, Ray Vella (Illustrators), Eric Hoffmann

Imaging: Annette Farrell, Mgr., Alan Bomzer, Asst., Leo Neter, Joseph

Rhames

PHOTO EDITORS: Scott Viny, Deputy, Ronnie We (Sr.), Michael Hirsch, Anne Murray, Andrew Popper, Assoc., Bettina Baudin, Kathleen Moore

Asst.), M. Margaria, Erica Lawrence Crowe, Sarah Greenberg, Morse

EDITORIAL OPERATIONS: Yvonne F. Rodriguez, Director; Wally Baudin, Nicholas M. White (Mg's), Karen Butcher, Francisco Carozza, Thomas R.

Dowd, Nancy Gores, Steffen R. Lebrun, Jody A. LoGrasso, Jose L. Martin, Peter K. Neeberg, Jane M. Parkinson, Laura Reisman, Karen

Turk, Ise V. Walton, Barbara W. White, Dorad C. Pearson, Guillermo Ortiz

EDITORIAL TECHNOLOGY: Thomas L. Morgan, Director; Richard Bastrino, David Bandler, Marie Bryant, Beth Higgins, James Kutz, Neil MacLeod,

John Navarro, Juan Rodriguez, Marta Sife, a Craig Sturgis, George White

BUSINESS WEEK ONLINE: Michael Verdure, Managing ed.), A. Peter

Dem, John A. Dierdorf, John Johnson, Dennis K. Berman, Naga

CORRESPONDENTS: Atlanta: David Greising, Mgr., Nicole Harris; Boston:

William C. Symonds, Mgr., Paul C. Judge, Geoffrey Smith; Chicago:

Richard A. Weisberg, Mgr., Roger G. Givens, David Leonard, Andrew

Osterland, DeAnn Weller; Cleveland: Peter Gauszka, Mgr.; Connecticut:

Susan Jackson; Dallas: Wendy Zeiner, Mgr.; Stephanie Anderson, Forest

Debra; McW. ams, Mgr.; Los Angeles: Ronald Grover, Mgr., Larry Armstrong, Sr.

San Francisco: Peter Burrows, Steve Hamm, Linda Himestein, Robert D.

Hof, And, Reinhardt; Washington: Owen J. Mann (Sr. news ed.), Doug as

correspondents: Amy Borus, Stan Crook, Richard S. Dunham, Dean

Foust, Susan B. Garland, Paul Magnusson, Mike McNamee, Stephen H.

Widstrom, Tech & You, Catherine Yang; Frankfurt: Thane Peterson,

Mgr.; Karen Lavin, Mgr.; David Woodruff; Hong Kong: Joyce Barnathan

London: Flynn; Mexico City: Ger. Smith, Mgr.; Moscow: Patricia Kranz, Mgr.; Paris:

Ga. Edmondson, Mgr.; Rome: John Rissari, Mgr.; Sao Paulo: Ian Katz

Singapore: V.; Contributing ed., Irene M. Kun, Emily Thornton; Toronto: Joseph

EDITORIAL SERVICES, Broadcasting: Ray Hoffman; Business Manager:

Barbara Boynton; Information Services: Jamie B. Russe, Director)

Robert Roemer, Susan Rutledge, Barbara S. Werba; Office Manager:

Roselin Koel; Communications: Robert Ponsoldo, Director; Christine

Summerson; Readers Report: Vette Hernandez; Reprint Permission:

Janet Gonzalez

PUBLISHER

SR VP, ASSOCIATE PUBLISHER: William P. Kupper

SR VP, OPERATIONS: Gar. B.

SR VP, MARKETING & BRAND DEVELOPMENT: Harold K. Somers

VP, STRATEGIC PLANNING & PRODUCT DEVELOPMENT: Kimber. Greer

VPs, SALES: Constance E. Barnett; International: Joanne K. Bradford;

Western Region: Dan Durr; Midwest Region: Robert H. Ke;

VP, STRATEGIC PROGRAMS: James H. McGraw

VP, SALES DEVELOPMENT: Mark A. Finn

VP, MANAGING DIRECTOR/ASIA: Stephen B. Moss

VP, MANAGING DIRECTOR/EUROPE: Fritz Krusebecker

VP, TECHNOLOGY: Thomas J. Reed

VP, CONTROLLER: Bernard J. Krack

DIRECTOR, ADVERTISING SALES: Linda F. Canavino

DIRECTOR, PRODUCTION & BUSINESS SERVICES: Marlo Talbot

EDITOR'S MEMO

TALE OF A TITAN

In 1990, Ron Chernow burst on the literary scene with *The House of Morgan*, a splendid biography of J. P. Morgan and his financial empire. Here was a book that was a brilliant blend of scholarship and readability. It had no recreated scenes or made-up dialogue. Everything was fully documented, rich in detail. Yet its narrative flow and fine writing made it read like a novel. It went on to win the National Book Award for nonfiction.



ROCKEFELLER

peddler of quack medicines who was also a bigamist. Rockefeller's sham about his father lasted a lifetime and drove him to his phenomenal success in business and philanthropy. It's all here—the Baptist fundamentalism, the formation of Standard Oil, the monopolistic ex-



CHERNOW

cesses, Ida Tarbell's muckraking the family dynamics, the extraordinary philanthropy in education and medicine, and ultimately the breakup of his empire in 1911. Our excerpt focuses on the fa-

Ever since, I've looked forward to everything Chernow wrote: *The Warburgs* in 1993 and *The Death of the Banker* in 1997. Now comes *Titan: The Life of John D. Rockefeller Sr.* We are proud to publish an excerpt, introduced with an essay written for us by Chernow that draws parallels to today. You'll find it on page 64.

Titan starts by examining Rockefeller's early life, with special attention given to his father, an itinerant

amous antitrust case.

You can read the book as a sympathetic portrait of a complex man, a business history, a legal battle, or simply as a great yarn. I highly recommend it.

Stephen B. Shepard

Editor-in-Chief

WHY BIG BANKS MAY MEAN BIG PROBLEMS

As an investment banker for small, closely held companies in New England, I find that bank loans are more difficult to arrange than in prior years, due to the concentration of assets among the larger banks ("Trillion dollar banks," Cover Story, Apr. 27). If a Massachusetts company is seeking a \$3 million to \$5 million loan package to recapitalize and update its machinery and building,

this amount isn't large enough to interest any of the three largest banks that control some 48% of the banking assets in the state.

Megabanks are not likely to be sources of financing for small business despite pre-merger announcements. Megabillions in loans will be reseeded for them. Indeed, any notion that the emergence of megabanks will benefit small businesses seems to be an illusion.

Michael G. Mott
Farmington, Ct.

Business Week

A Division of The McGraw-Hill Companies

MAY 18, 1998 (ISSN 0007-7135) *** 3578

Postmaster: Hightstown, NJ 08520. Periodicals postage paid at New York, N.Y., and at additional mailing offices. Postage paid at Montreal, P.Q. Canada Post

Hill House, Maidenhead, Berks, England. Telephone: 01628-23431; Tele

and Chief Executive Officer: Harold W. McGraw III, President and

Operating Officer: Kenneth M. Vittor, Senior Vice President and

Counsel; Robert J. Bahash, Executive Vice President and Chief

Officer; Frank D. Pengilase, Senior Vice President, Treasury Officer

Michael K. Hehr, President, Information Services Group

PHOTOCOPY PERMISSION: Where necessary, permission is

Center, CCC, 222 Rosewood Drive, Danvers, MA 01923, to photor

article herein for the flat fee of \$1.40 per copy of each article. Se

ment to the CCC. Copying for other than personal or internal re

prohibited. Address requests for customized bulk reprints to B

Week Reprints, P.O. Box 457, Hightstown, NJ 08520, or call 609/4

ISSN 0007-7135/98\$1.95 PRINTED IN THE

ur two pieces on megabanks ("Citicorp: Really big may not be better," Editorials, Apr. 20, and "Big banks, big problems" Editorials, Apr. 27) highlight a public policy concern: Who will bail out Travelers Group Inc.'s other umbrella? I am referring to the implicit federal safety net shielding giant financial companies, such as the new Citigroup, from being "too big to fail."

The government umbrella always protected Citicorp and other behemoths with federally insured deposits. The same federal umbrella, however, has been used to bail out failed insurance securities firms. With this new merger, these and other nonbank firms now are in the same corporate group with Citicorp. This results in an increased tax-exposure, potentially to all of the \$1 trillion in assets. In the worst-case scenario, the government will have no choice but to bail out the largest financial company in the nation (and the world). It is not unreasonable to suggest that Citicorp should pay something in return for this federal subsidy. At a minimum, they, like their Citicorp partner, should be covered by the Community Reinvestment Act (CRA), which encourages banks to invest in low- and moderate-income neighborhoods. Another, more market-based solution is requiring Citicorp and the 20 or so other [large] companies to pay a separate insurance premium to the Treasury, similar to the deposit insurance premium banks now pay to the Federal Insurance Deposit Corp. Travelers, which wrote the first auto insurance policy in 1897, argued against the concept of paying for a guarantee that ensures eternal solvency? The first alternative is to do nothing.

Kenneth H. Thomas
Wharton School
Philadelphia

IN A SPORT-UTE? AGAIN, BOOMERS

"Suddenly, boxy is beautiful" (National Business, Apr. 27), boomers may large sport-utility vehicles are praised as caring about safety for themselves and their kids more than the rest of us. Actually, they're kidding themselves.

I did one and couldn't wait to get rid of it. Having driven all kinds of vehicles for 40 years, I never felt safe in my car in the Northeast. On dry roads, it was no longer than a car to make a stop, and on wet pavement, it often skid dangerously. Even at low speeds, a sudden maneuver could tip it, especially if a wheel hits a curb. While four-wheel drive got me out of a snowbank once every few years, it had no help in stopping or driving in

snow or ice. Yet, many SUV drivers act as if they're invincible.

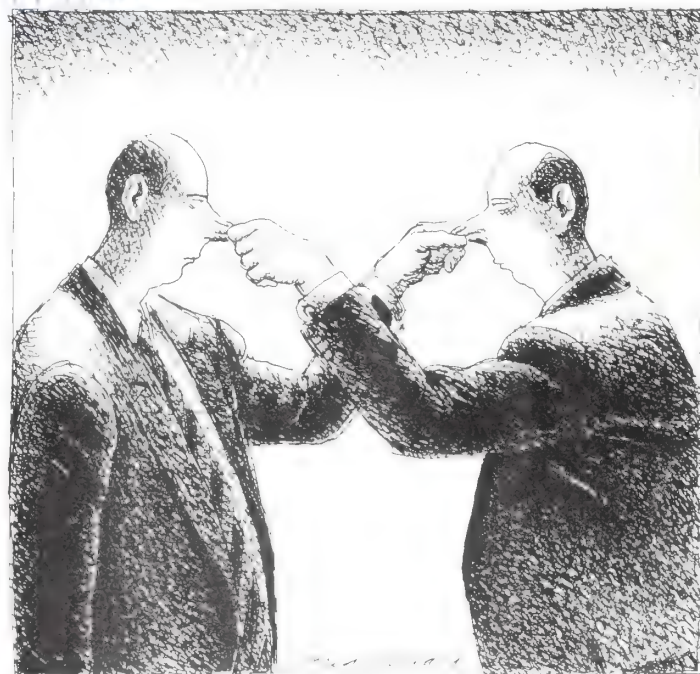
In a collision with a car, the SUV might fare better, although the car might be better at avoiding the accident. But wouldn't boomers want their kids to be safe in a wide range of driving situations? And wouldn't they want to leave those kids a legacy of courtesy on the road (vs. intimidation) and air that is significantly less polluted?

Karen Cooper
Pound Ridge, N.Y.

SCIENCE CAN'T FATHOM THE BEAUTY OF A BACH FUGUE

To the question asked in "Can science make sense of everything?" (Books, Apr. 20), the answer, of course, is no. Probably no one has been more clear about the distinctions between truths of the mind (science) and truths of the spirit (the arts, religion, feelings) than Edith Hamilton, who understood both truths, especially as they coexisted in ancient Greece.

Since to doubt and to question is the



Mutual suspicion between network wholesalers and retailers is burdensome. That's why Williams network really is wholesale only.

that **Williams** network

11,000 fiber miles laid, lit and ready to ride.



Visit www.willtales.com, or call 1-800-WILLIAMS.

©1998 The Williams Companies, Inc.

Get Ready For A First-Of-Its-Kind Media Extravaganza at SUPERCOMM '98

As The Official Media Services

Provider of SUPERCOMM '98,

The McGraw-Hill Companies'

leading publications will offer an

array of media options to keep you

plugged in at SUPERCOMM '98

(June 7-11, Atlanta, GA).

SUPERCOMM SHOW DAILIES

3 Show Dailies

1 Post-show Daily

The Daily is your guide to SUPERCOMM!

A daily account of:

- Key Industry Happenings
- New Technology Trends
- Service Updates
- Hot Product Launches
- And Key Business and Policy Issues

On-line News Service & LIVE TV

Interactive On-line News Service

An interactive on-line news service offering complete content from the Show Dailies as well as a bevy of interactive media.

- Hyperlink to a Host of Pertinent Industry Sites
- Participate in Daily Interactive Polls
- Play and Win the Interactive Quiz

Live Event TV

Don't miss this exciting new part of SUPERCOMM—Live TV. Tune in to daily show coverage from one of the many TV monitors in the convention center or come relax in the Live TV studio (Hall H). Take in live debates and interviews with key industry luminaries or catch up on the newest industry trends from the experts at *tele.com*, *Data Communications*, and *Business Week* magazines. Live TV Will Offer

- Interactive Panels
- Q & A Sessions
- Reports From The Show Floor
- Keynote Coverage
- Press Conferences
- And Much More

**Live Event TV will be the place
to inform and be informed!**



tele.com
Data Communications
BusinessWeek

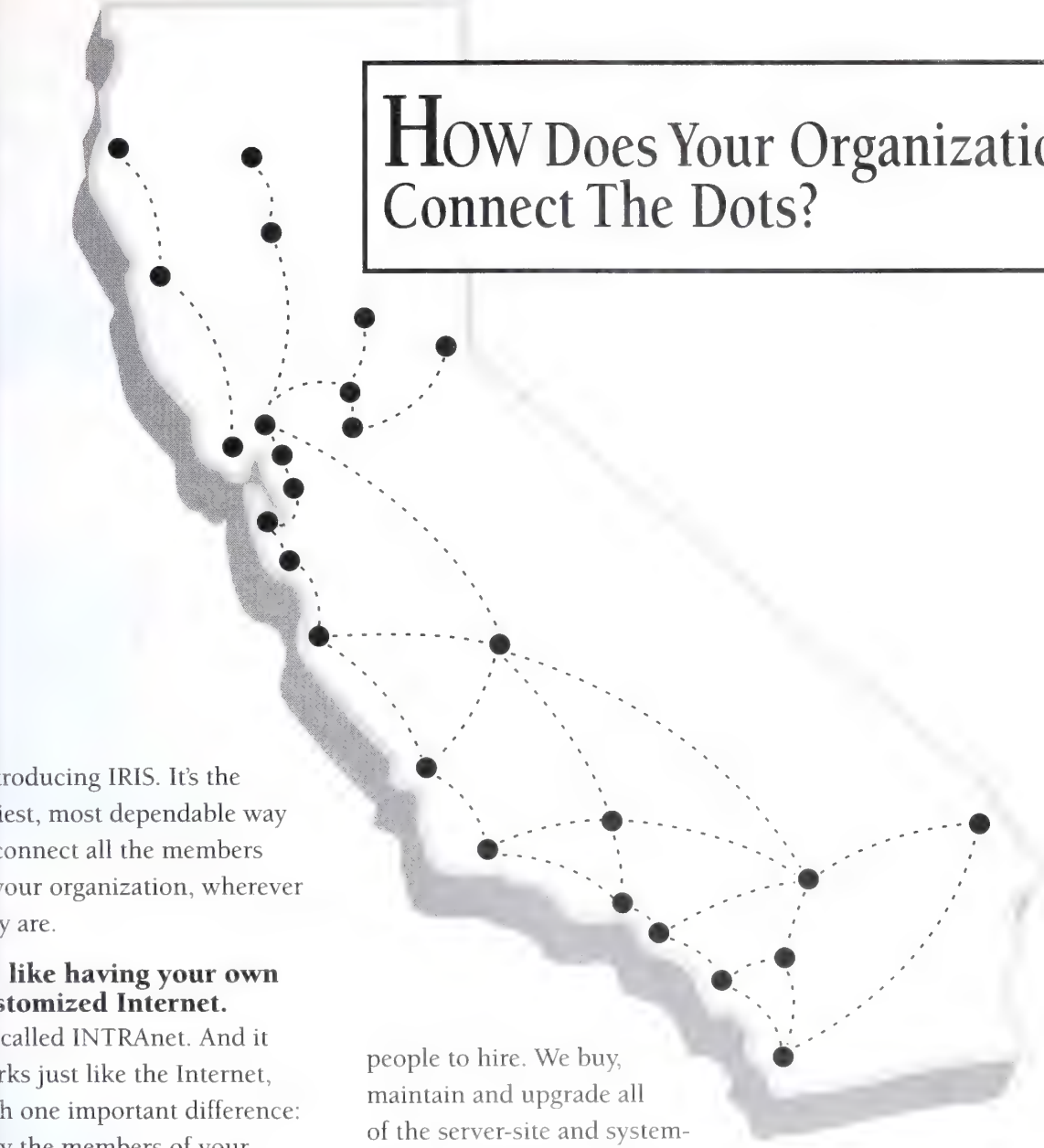
OFFICIAL MEDIA SERVICES PROVIDER
FOR
SUPERCOMM '98

Explore the Whole World of Communications

**FOR ADVERTISING INFORMATION
ABOUT THESE MEDIA OPPORTUNITIES,
PLEASE CALL:**

Bernie Hockswender, National Advertising Director,
tele.com (404) 843-4782

Glenn Maiorano, National Advertising Director,
Data Communications (212) 512-6317



How Does Your Organization Connect The Dots?

Introducing IRIS. It's the easiest, most dependable way to connect all the members of your organization, wherever they are.

It's like having your own customized Internet.

It's called INTRANet. And it works just like the Internet, with one important difference: only the members of your organization have access to it.

Send individual and broadcast mail. Post messages. Store data. Hold video conferences. Exchange documents. Train. All private. All completely secure.

Nothing ever becomes obsolete. Except our competition.

Unlike other INTRANet providers, there's no extra equipment to buy, and no additional technical

people to hire. We buy, maintain and upgrade all of the server-site and system-support hardware and software.

So you'll have access to the latest, fastest technology without paying for constant upgrades.

Instant access to important information. No one makes it easier.

**Connect the dots by calling
(916) 635-5690.**



IRIS

Integrated Realtime
Information Services

www.iris1.com

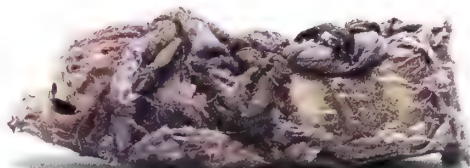
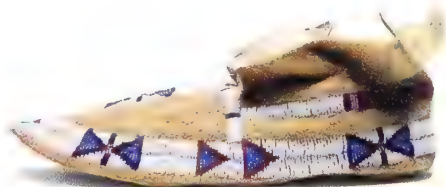
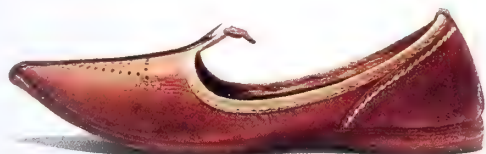
**IT HAS BEEN
SAID THAT TO TRULY
UNDERSTAND OTHERS
YOU HAVE TO WALK
A MILE IN THEIR
SHOES.**

**DO YOU
HAVE THAT KIND
OF TIME?**



Not if you're an executive in a global corporation. But to get the most from your international workforce, you need to know how to engage a workforce with varied backgrounds, cultures, and values. After all, what motivates in Mexico

may not in Taiwan. What you need is a way to turn your employees' diversity into a competitive advantage. At Watson Wyatt, we have the experience and resolve to help you do just that. As a global human resource



ing firm with offices in 36 countries, we can
e what you need to increase your company's return
investment in human capital. And you can do it
g your own shoes. To learn how to get the most out

of your global workforce, call your local Watson Wyatt office
or 1-800-851-4346,
or visit our web site at
www.watsonwyatt.com.





Your customer is at 4 minutes and holding
Care to wager how much longer she'll be
your customer?

Treat a customer right and you'll keep their business. Lose focus on your customer and your competition will be right there. But, how can you ensure customer loyalty? Call Quintus.

Quintus gives your sales and service people the information they need to keep customers happy with the industry's only end-to-end call center solution. So any customer request,

whether via telephone, fax, e-mail or the Internet can instantly and accurately handled.

Fifteen of the *Fortune 50* already use Quintus to build customer loyalty and reduce costs. "Customer for life" is not an outdated ideal. You just have to make the right call. 1-800-337-8941. Or visit www.quintus.com.



QUINTUS

Turning contacts into loyal customers.

ATTENTION: HIGH VOLTAGE

Especially now, due to the people at PG&E Energy Services. They're making energy work harder than ever. In fact, you'd be surprised how quickly they can find all sorts of ways for your business to use energy more efficiently - and save money. To see for yourself, please don't touch. Instead, call 1-888-743-3900 x200.



**PG&E Energy
Services**

People with energy.

www.pgees.com

ALLIED ARTS GUILD

CIRCA 1929



Carolyn Hofstetter

Early California Landmark • Magnificent Spanish Gardens

Professional Artists' Studios • Unique Shops • Restaurant

Open to the public Monday–Saturday, 10am–5pm

75 Arbor Road, Menlo Park, CA 94025

take El Camino to end of Cambridge

For information, call 415•322•2405

For restaurant reservations, call 415•324•2588

*The Allied Arts Guild is managed by the volunteers of Woodside–Atherton Auxiliary,
benefitting Lucile Salter Packard Children's Hospital at Stanford*



LUCILE SALTER PACKARD
CHILDREN'S HOSPITAL AT STANFORD

f the mind, the truths of the mind constantly being modified. The of the spirit, on the other hand, no time and all time. They are for the humblest and the might-experience. A play by Euripides, h fugue, a book from the Bible mplete unto themselves. It would nic if in the 21st century, scien-like the medieval Church, set elves up to define not only the of science but also those of reli-art, and the realm of feelings, like, compassion, love, and their coun-ts. Those who did not believe in definitions could be drummed out ir professions, and in a monolithic n of thought such exclusion could it to a living death. That would be ay to achieve what Edward O. i calls "consilience."

However, tomorrow's scientists may one more string in their bows as lacking in the past. It just e possible to use gene manipula-and elimination to modify the hu-species so that it will fit into a y that is almost ant-like in its city, efficiency, and conformity. hat would be another way to e consilience.

Helen Myers
Claremont, Calif.

**VERDICT IS ALREADY IN:
S SIZE MATTERS**

ould Uncle Sam pour more bucks schools?" (Social Issues, Apr. 20) o depict the many reasons why ng class size now can help our uts. Smaller classes provide more lual attention for students, bring rder to classrooms, and improve eaching and learning environment. ticular, research has suggested udents in early grades are most o benefit from smaller classes. classes in the early grades will nsure that students master the and enter higher grades with st foundation possible.

T nessee's Project STAR study is a ark study in educational research. i he only large-scale, randomized, ntrolled study on class-size re-a. For four years, the STAR study ed 7,500 students in more than assrooms in 79 schools, from rergarten to grade 3. It found that ts in small classes substantially rformed those in larger classes. v-up studies show that for a sig-t portion of the same students, gains persisted throughout ele-ary school. We do not agree about

From American Century:

An Over-Achieving International Fund

Average Annual Total Returns As Of March 31, 1998	1 Year	3 Years	5 Years	Life of Fund (5/9/91)
INTERNATIONAL GROWTH FUND	33.8%	23.2%	17.7%	16.3%
LIPPER INTERNATIONAL FUNDS AVERAGE	19.5%	14.1%	13.3%	n/a

Please ask for a prospectus with more complete information, including charges and expenses. Be sure to read it carefully before you invest. Naturally, past performance can't guarantee future results. These figures are for investor class shares and assume all dividends were reinvested. Please consult a prospectus for information about other share classes. Investment return and the value of your principal will fluctuate, and the final value of your investment may be more or less than what you started with. The Lipper International Fund average is an average of funds that invest their assets in securities with primary trading markets outside the U.S. It is not an investment product available for purchase. You should keep in mind that international investments are subject to special risks, such as currency fluctuation or political instability.
©1998 American Century Services Corporation, Funds Distributor, Inc. BSW



www.americancentury.com

1-800-345-2021

Get the latest advertiser info.

Check out

BizLink

www.businessweek.com/BizLink/

on page 206

TIBCO software connects all your applications, databases and networks. You become a global, real-time, event-driven enterprise. (Over 500 of the world's leading corporations are.) You know instantly the relevant events that drive your business. Your business processes are integrated for smarter, faster decisions. You reduce cycle times. You deliver customer service at the highest level. You win.

See that four-leaf clover? It's yours.



www.tibco.com



NEW YORK CHICAGO BOSTON HOUSTON PALO ALTO TORONTO WASHINGTON D.C. LONDON AMSTERDAM COPENHAGEN
STOCKHOLM FRANKFURT LUXEMBURG VIENNA ZURICH MELBOURNE SYDNEY HONG KONG SINGAPORE TOKYO

© 1999 TIBCO. All rights reserved.

Readers Report

eed to wait for additional findings
e embarking on critical initiatives.

Marshall S. Smith
Acting Deputy Secretary
Education Dept.
Washington

RICH FOLKS LATE

"Why taxpayers file late" (Eco- Trends, Apr. 20) you suggest higher-income taxpayers owed a d file at the last minute because of ological reasons. I believe you overlooked the fact that those higher incomes typically have complex returns and are more ident upon third parties for infor- n, especially K-1s. en upon receipt of all outside K-1s .099s, the complexity of a return higher-income individual is such in inordinate amount of time is red to collate this information for a ssional tax preparer. Further, the er takes longer to process the n once all information is received. a result, even though a refund is ed in a timely manner, complex re- by their very nature are likely filed at the last minute.

Jeff Day
Hillsborough, Calif.

ANY WONDER THAT CEO'S PAYCHECK IS SO BIG?

"Executive Pay" (Special Report, 20), you say that the average boss 326 times a factory worker does. can't be stopped as long as these executives sit on each others' ls as members of compensation ittees. The remedy can only come rkers and nonexecutive share- rs sit on these committees.

Lance Chow
Brooklyn, N.Y.

ONFILM: HERE TODAY, TOMORROW

this age of computerized data and l decay, "From digits to dust" (Sci- & Technology, Apr. 20) builds a elling case for the only storage um besides paper that has with- the test of time for more than ears—microfilm.

like many digital files, original doc- ts stored on microfilm several es ago are readable and will con- to remain so in the foreseeable fu- Why? Because, like paper, microfilm e read by the eye and is not hard-

From American Century:

A 5-Star Way To Reduce Stock Market Risk

Average Annual Total Returns As Of March 31, 1998	1 Year	3 Years	Life of Fund (8/1/94)	Morningstar® Rating
EQUITY INCOME FUND	37.8%	26.3%	24.5%	★★★★★ 5 STARS
Morningstar performance rating as of March 31, 1998. Fund rated for the overall period among 2,437 domestic stock funds.				

Please ask for a prospectus with more complete information, including charges and expenses. Be sure to read it carefully before you invest. Naturally, past performance can't guarantee future results. These figures are for investor class shares and assume all dividends were reinvested. Please consult a prospectus for information about other share classes. Investment return and the value of your principal will fluctuate, and the final value of your investment may be more or less than what you started with.

Morningstar proprietary ratings reflect risk-adjusted performance as of 3/31/98. These ratings may change monthly, and are calculated from the fund's three- and five-year (when available) average annual total returns in excess of 90-day Treasury bill returns, with the appropriate fee adjustments and a risk factor that reflects fund performance below 90-day Treasury bill returns. Equity Income has a 5-star rating for three years out of 2,437 domestic stock funds. 10% of the funds in an investment category received five stars; the next 22.5% received four stars. ©1998 American Century Services Corporation, Funds Distributor, Inc. BSW

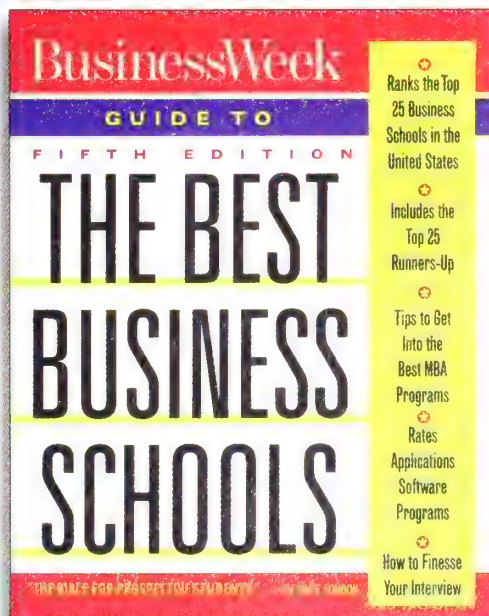


AMERICAN
CENTURY®

www.americancentury.com

1-800-345-2021

Looking at B-schools? Make this your *first* choice



The only guide to feature accurate business school rankings and profiles by recent graduates and recruiters

- **NEW!** Expanded ratings of more schools than ever
- **NEW!** Rankings of GMAT prep courses
- **NEW!** Comparisons of application software
- **PLUS!** Candid comments from the latest graduating classes, students' quality-of-teaching ratings, starting salary & bonus averages for graduates, and much more



Available at bookstores everywhere
Visit us on the Web at www.books.mcgraw-hill.com

Before you dive headfirst into
digital copiers, we'd like to
re-introduce the art of thinking ahead



*The Océ 3165 digital copier/printer can
be linked to your computer network this very
minute or the minute you're ready.*

When investing in a digital copier/printer, a little
forethought can go a long way. Before taking the plunge,
consider this: many digital copiers are painfully slow, not
networkable and require an advanced degree to operate.

Now consider the Océ 3165 digital copier/printer.
It runs at a remarkably rapid 62 ppm. It can interact
with any PC on virtually any network, maximizing
your productivity by letting you print, copy, and collate
right from your desk. And with Océ Image Logic,
high-quality images, graphs and text are achieved
without endless adjustments.

Invest in the smarter, faster, more
productive Océ 3165. Otherwise, in
the future, you may hear yourself sheepishly muttering
"In hindsight we should have gone with Océ."



*Sharpen your digital acumen with your free Digital
Copier Buyer's Guide. Call 1-888-462-3872, ext. 143.
For general copier enlightenment, visit www.oceusa.com*



Readers Report

or software-dependent. In addition, microfilm can survive water and fire that would ruin paper records, as well as exposure to heat, magnetic and "digital decay" that can render electronically stored data unreadable. As digital storage modalities proliferate, we see film remaining an important long-term storage media that will enable present and future generations to view original documents and have access to important historical data.

Kenneth Kopald
Fuji Photo Film USA
Elmsford, N. Y.

John Luke
Eastman Kodak Co.
Rochester, N. Y.

Tad Yokota
Minolta Corp.
Ramsey, N. J.

FINDING US ONLINE

BusinessWeek ONLINE

Full text of Business Week, the Business Week Daily Briefing, and six years of BW archives are available on the World Wide Web at:

www.businessweek.com

and on America Online at Keyword: BW. Sign up for BW on AOL, call (800) 641-4848 and mention Business Week.

maven

Looking for computer equipment? Visit Maven, our new Computer Buying Guide, for continuously updated ratings and price information. Go to Keyword: Maven on America Online, or to the World Wide Web at:

www.maven.businessweek.com

HOW TO REACH BUSINESS WEEK

FOR READERS REPORT

Reports must include an address and daytime and evening phone numbers. We reserve the right to edit for clarity and space and to use them in all print and print editions.

Business Week, 1221 Avenue of the Americas, New York, NY 10020

(212) 512-6458
bwwreader@mgm.com
Online: readersbw

FOR ADVERTISERS

Individual subscriptions, corporate subscriptions, changes or problems, and single copies. (800) 635-1200 or (609) 426-7500
(609) 426-7623
bwhelp@mcgraw-hill.com

REPRINTS AND COPYRIGHT PERMISSIONS

For reprints (minimum order of 500) contact 654-9494.
For quoting or reusing editorial material.
(212) 512-4801
(212) 512-4938

From American Century:

Two Funds That Keep Beating The S&P

Average Annual Total Returns As Of March 31, 1998	1 Year	3 Years	5 Years	Life of Fund
INCOME & GROWTH	52.2%	34.3%	22.7%	22.7% (12/31/94)
EQUITY GROWTH	55.5%	35.2%	23.5%	20.8% (3/31/91)
S&P 500 INDEX	47.9%	32.7%	22.4%	21.4% (12/31/94)
				19.6% (3/31/91)

Please ask for a prospectus with more complete information, including charges and expenses. Be sure to read it carefully before you invest. Naturally, past performance can't guarantee future results. These figures are for investor class shares and assume all dividends were reinvested. Please consult a prospectus for information about other share classes. Investment return and the value of your principal will fluctuate, and the final value of your investment may be more or less than what you started with. The S&P 500 is an index created by Standard & Poor's Corporation that is considered to represent the performance of the stock market generally. It is not an investment product available for purchase. ©1998 American Century Services Corporation, Funds Distributor, Inc. BSW



AMERICAN
CENTURY

www.americancentury.com

1-800-345-2021



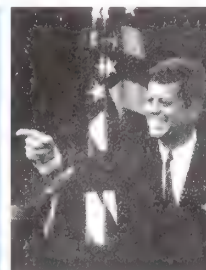
CHALLENGE
ABILITY
PERFORMANCE
SOCIETY

2 HISTOR 101

PROFESSOR: JOHN F. KENNEDY

PLEASE NOTE: Read each question carefully before answering.
If unsure of answers, visit the John F. Kennedy Library & Museum today. Open daily from 9 to 5. Please call 617-929-4523.

SUBJECT: JOHN F. KENNEDY'S LIFE (1917 - 1963)



Test No. 2: Fill in the blanks

- 1 _____ is the item that traveled farthest to reach the Library.
- 2 _____ is the Pulitzer Prize winning book he wrote.
- 3 His Library & Museum is built on a former _____.
- 4 _____ was his favorite musical.
- 5 To strengthen his voice he used to _____ every morning.



JOHN F. KENNEDY
LIBRARY AND MUSEUM

OFFICIAL
TEST
CENTER

1. Moon rock from Apollo 16
2. Profiles in Courage
3. Landfill
4. Camelot
5. Bark

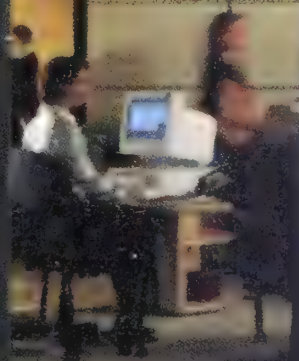
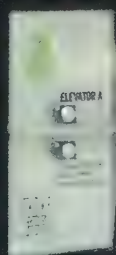
Extra Credit:

Visit the Library to find out why Jackie got a "D" on her report card at Miss Chapin's School, what J.F.K. named his boyhood sailboat and where Jackie's camera is kept.

FOR MUSEUM USE ONLY

ANSWERS:

WHAT'S IT GOING
TO TAKE TO GET
A DATA NETWORK
AS RELIABLE
AS THE VOICE
NETWORK?



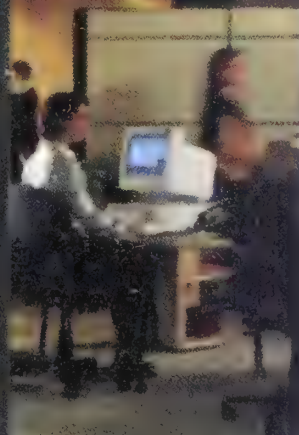
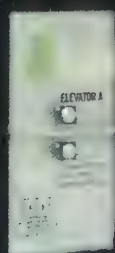
INTELLIGENCE Every day, the need becomes more critical. Your data network has got to work. No matter what. No matter where. (Just like your voice network.) What's it going to take to get that kind of reliability? For 128 years, we've built the most reliable networks on earth. And we bring that same level of reliability to data. We're building data networking products with self-diagnostic software. They monitor themselves. They fix themselves. We're also making most critical components redundant. Just to be smart. We know what the reliable data network of the future looks like. We can make sure that network is yours. **We make the things that make communications work.™**

Lucent Technologies
Bell Labs Innovations

600 Mountain Avenue
Murray Hill, NJ 07974-0636
<http://www.lucent.com>



WHAT'S IT GOING
TO TAKE TO GET
A DATA NETWORK
AS RELIABLE
AS THE VOICE
NETWORK?



INTELLIGENCE Every day, the need becomes more critical. Your data network has got to work. No matter what. No matter where. (Just like your voice network.) What's it going to take to get that kind of reliability? For 128 years, we've built the most reliable networks on earth. And we bring that same level of reliability to data. We're building data networking products with self-diagnostic software. They monitor themselves. They fix themselves. We're also making most critical components redundant. Just to be smart. We know what the reliable data network of the future looks like. We can make sure that network is yours. **We make the things that make communications work.™**

Lucent Technologies
Bell Labs Innovations

600 Mountain Avenue
Murray Hill, NJ 07974-0636
<http://www.lucent.com>



PORTRAIT OF DR. GACHET
The Story of a van Gogh Masterpiece
By Cynthia Saltzman
Viking • 406pp • \$25.95

HOW AN \$82 MILLION PAINTING GOT THAT WAY

In the spring of 1990, at the peak of the art market's frenzied boom, a Vincent van Gogh portrait was sold to Ryoei Saito, a Japanese paper magnate, for an astonishing \$82.5 million. The event made headlines worldwide, partly because the price was a record and partly because the sale happened exactly 100 years after the troubled artist painted the work. (Six weeks later, at the age of 37, he committed suicide). The painting, of Paul-Ferdinand Gachet, the provincial French doctor who last treated—or, in spite of instructions from van Gogh's brother, failed to adequately treat—van Gogh, had first sold for \$58.

Former *Forbes* and *Wall Street Journal* reporter Cynthia Saltzman had the felicitous idea of investigating the history of the famous van Gogh work. Her well-researched book, *Portrait of Dr. Gachet*, traces the painting's sales and eventual rescue to the U.S. after the Nazis condemned it as "degenerate." It provides a case study of how the modern art market developed and how the forces of commerce and connoisseurship can ensure that genius will out.

But Saltzman's book also contains some grim reminders. It shows how two world wars and the Holocaust devastated Europe's cultural life. It also shows how easily even a seminal work by a great artist might have been lost or destroyed. As it is, the "Gachet"—purchased in 1990 as an investment rather than for display—has spent the last eight years wrapped in cotton and locked in a warehouse in Japan. What a terrible loss to the world's cultural life. The painting—not to be confused with the similar Musée d'Orsay-owned work, the authenticity of which some have questioned—is now being shopped around and likely will soon be sold to a private buyer for a price similar to what it fetched in 1990.

How does a work of art achieve such value? As Saltzman notes, the drama of van Gogh's life gave him almost instant cachet. His madness and self-mutilation (he really did cut off part of one of his ears in a fit of despair) made him the prototypical tortured genius. And his sad death made far more compelling copy than the comfortable if unconventional family lives of such contemporaries as Claude Monet or Pierre-Auguste Renoir. As early as 1914, one critic was calling van Gogh the suffering Christ figure among artists. By 1934, van Gogh had been immortalized in Irving Stone's best-selling novel *Lust for Life*.

Moreover, van Gogh was one of the first beneficiaries of the rise of the modern art market in the late 1800s. It was then that the French Impressionists, and the pioneering art dealers and collectors who championed them, started to break the hold of conservative teaching academies and museums that had kept art focused on classical themes. That, in turn, allowed the flowering of flamboyant and highly individualistic Post-Impressionists such as van Gogh, Cézanne, and Matisse, as well as a multitude of successors from Picasso on.

The rise of van Gogh's reputation is typical of how artistic taste-making has worked ever since. Contrary to popular myth, van Gogh's talent was recognized before his death. Fellow artists such as Paul Gauguin saw his genius almost immediately, as did a handful of pioneering art dealers. Initially, van Gogh's paintings failed to sell and were derided by critics as "splotchy" and unintelligible. Indeed, many of the works might have been lost if Johanna van Gogh-Bonger, the widow of Vincent's art-dealing

brother Theo, aided by a few courageous gallery owners, hadn't continued to promote them following Vincent's death.

Van Gogh himself might have enjoyed a prosperous old age, as many Impressionists did, had he not committed suicide. By the turn of the century, reputation was on the ascendant. By 1911, when van Gogh would have been 58, Frankfurt's Städtisches Kunstinstitut und Städtische Galerie already acquired the Gachet portrait for \$3,861. The following year, Alfred Barnes, a patent-medicine magnate and ground-breaking art collector from Pennsylvania, helped internationalize van Gogh's following when he became the first American to buy one of his paintings.

Saltzman's story takes an unusual turn at the point where the Nazis came involved—and this provides some of the most interesting reading in the book. It is often forgotten that

Nazis criminally plundered their own nation as well as the rest of Europe. By 1938, the Frankfurt museum was hiding the "Gachet" and other daring modern paintings in its attic because art leaders were raiding collections across Germany—burn "degenerate" works, sell them for hard currency, or keep them for themselves. The Nazis got the "Gachet" anyway, and it in 1938 to a German

lector living in Amsterdam to help Hermann Göring's collection of paintings. The painting, then valued at \$53,000, was quickly resold to Siegfried Kramarsky, a Jewish financier who fled to New York to escape the Holocaust, was his heirs who sold the work at the 1990 Christie's auction.

Saltzman's telling of this tale sometimes bogs down in the data she amasses in over 408 pages of text and notes. Also, sadly, the illustrations are sparse and in black and white. But the book's detail is more often than not compelling. For anyone interested in art, the market, and the cultural life of Europe, this is a fascinating book.

BY THANE PETERSON

Frankfurt bureau chief Peterson is an avid oil painter.

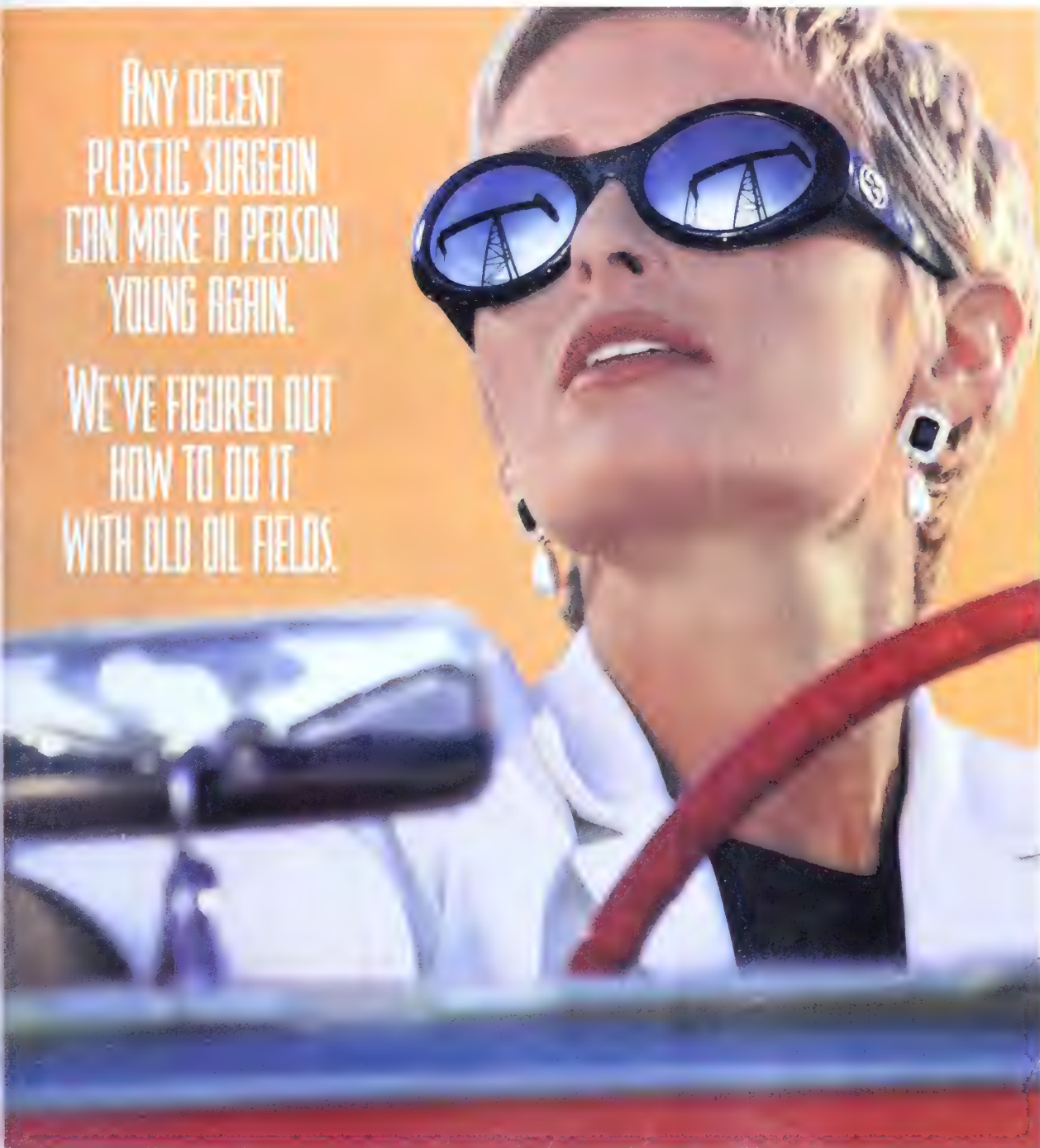


THE STORY OF A VAN GOGH MASTERPIECE

THE ODYSSEY OF THIS VAN GOGH IS A CASE STUDY OF THE MODERN ART MARKET

ANY DECENT
PLASTIC SURGEON
CAN MAKE A PERSON
YOUNG AGAIN.

WE'VE FIGURED OUT
HOW TO DO IT
WITH OLD OIL FIELDS.



HOW TEXACO'S RELENTLESS PURSUIT OF ENERGY PUMPED NEW LIFE INTO AN OLD FIELD.

After 100 years, California's Kern River oil field needed a little help. Even though there was plenty of oil, there was no way to get all that oil out.

Then some of the bright young minds at Texaco came up with a new way to use a process called multi-zone steam flooding, and turned an old field into a veritable fountain of youth.

You see, the oil was hidden in layers of rock and sand. They forced steam into those layers and heated the oil, so it could separate from the earth and be pumped to the surface.

Suddenly, a source that was nearing the age of retirement is producing millions of new barrels of oil. And counting.

By rejuvenating oil fields at Kern

River and elsewhere, we can now get astounding amounts of additional energy. All the tummy tucks and liposuction in the world couldn't work that kind of miracle.

It's all part of our relentless search for the energy to keep the world running. To learn more, pay us a visit at www.texaco.com.

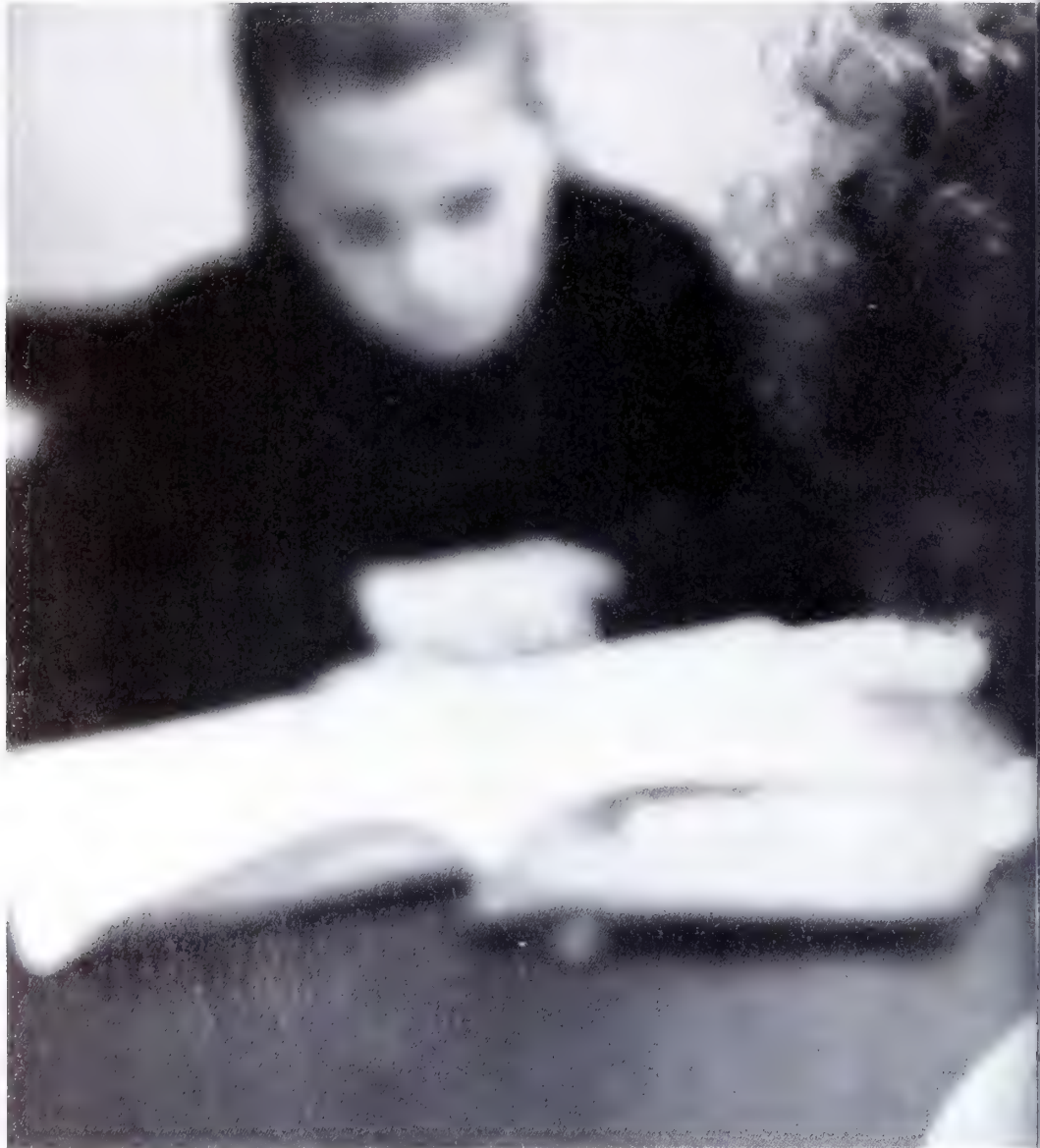


A WORLD OF ENERGY.

Look on the bright side. There'll also be lots more cherries and watermelons in the future. Because agribusiness, Hoechst Schering AgrEvo, we aim to utilize biotechnology in improving crop production and protection for harvests that are more bountiful than ever. After all, the cultivated areas of the world will get any bigger. But our children will. And it's their future that's at stake.



Imagine a world filled with more spinach, Brussels sprouts, and...

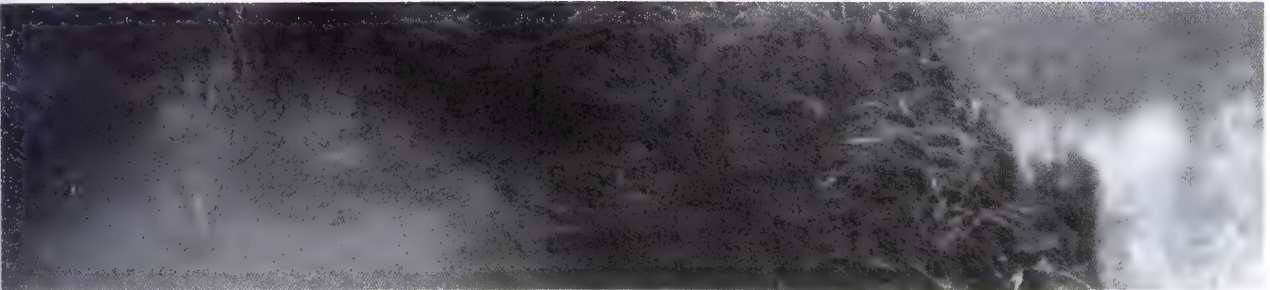


R 12548 BW US

 **AgrEvo** is the agribusiness of Hoechst, an international group of companies spearheading innovation in agriculture.

The Future in Life Sciences

Hoechst 



ma beans than you ever thought possible.



BY GARY S. BECKER

GOOD-BYE, TOLLBOOTHS AND TRAFFIC JAMS?



OPEN ROAD:
The economic cost of congestion is huge. Putting usage meters on cars and offering peak and off-peak rates would change all that

An iron law of economics states that demand always expands beyond the supply of free goods to cause congestion and queues. Drivers caught in traffic jams on the freeways in and around major cities of the world regularly run afoul of this law.

Road congestion imposes large hidden costs on drivers by increasing the time and fuel required to travel from home to work and airports, to visit friends, and enjoy restaurants and other entertainment. Traffic in many nations increased enormously during the past couple of decades as gasoline prices fell, cars became more fuel-efficient, and families became richer. In New York, Los Angeles, Chicago, and most other American cities, roads have become jammed in both directions between the center and surrounding areas during rush "hours" that last throughout most mornings and afternoons. I now allow two hours during congested periods to get to O'Hare International Airport from my Chicago home, a trip that takes less than 35 minutes in light traffic.

The value of the time and fuel lost in 1994 to congested traffic in American cities has been estimated by the Texas Transportation Institute. Their calculations, which ignore pollution costs, assume 1½ drivers per car and that time in traffic has an average value of \$11 per hour per person. The cost of heavy traffic exceeded \$75 billion, with the Los Angeles area leading at \$9 billion annually and New York at \$8 billion.

Congestion in European and Asian cities is even greater than in the U.S. The average speed at peak times in many cities is less than nine miles an hour, and the time, fuel, noise, and pollution cost of road congestion in Europe is said to be worth more than \$100 billion per year.

METER READER. A vastly better solution than building additional highways through dense urban areas would be to charge for the right to use congested roads with electronic toll collectors (ETCs). These collectors meter cars that have radio transponders affixed to them as they pass through designated areas. The transponders emit an automatic vehicle I.D. that generates a toll for each customer's account as the vehicle passes an ETC.

Everyone could be required to have transponders on their vehicles, the way homes have meters to record gas and electric bills. Drivers who fail to install transponders could

be tracked down, since ETCs can capture license-plate images. Monthly bills could increase accumulated tolls, or toll charges might be deducted automatically from prepaid smart cards loaded into these transponders. A private company is already using electronic meters and transponders to charge cars to use a major road near San Diego, Calif.

HEADACHE RELIEF. Electronic tolls are fees that would provide revenue to be pressed for funds because of narrow bases. Yet unlike taxes, these fees might be welcomed by drivers if they saved time, and human energy by alleviating traffic jams.

Although electronic tolls have been growing rapidly in some countries, their flexibility in reducing traffic congestion has not been realized. Tolls could vary with the time of day and day of week, the degree of traffic congestion, the traffic lane used—"express" lanes could be more expensive—and with other sophisticated traffic criteria. ETCs usually go alongside conventional toll booths, which themselves cause traffic bottlenecks, especially during peak times. Instead, electronic toll collectors should replace toll booths; they can be placed at bottlenecks and other crucial traffic positions along all major highways and other roads.

I believe road traffic is much more sensitive to price than is commonly believed. A German study suggests considerable response to fees imposed on cars entering one-way streets during peak traffic periods. Road-user charges imposed by electronic meters would induce some people to change their work, living, and shopping patterns. Commuters who value their time highly might be willing to pay fees during congested periods, but retirees and young persons with cheaper and more flexible time would alter their driving patterns to avoid costly surcharges. Some would consider shifting to buses and commuter trains. More trucking companies would deliver goods during late evening and earlier cheaper periods to bypass costly tolling peak times. Neighbors would carpool, families might move closer to work to reduce toll charges.

Most governments pay little attention to the sizable hidden time and other costs imposed by the horrendous traffic congestion in their metropolitan areas. Electronic tolls can relieve these bottlenecks and also provide revenue, a win-win situation for all.

VIZIO

MOVADO[®]



Vizio-bracelet chronograph

OWNE JEWELERS

Phoenix, AZ. 602-375-0286

BY GENE KORETZ

IT'S THE 'EARLY-APRIL EFFECT'

Late IRA savers boost the market

According to efficient-market theory, stock-market movements are essentially random. That is, prices show no predictable pattern from day to day or month to month, but instead instantly reflect only changes in fundamental information. Still, market observers are constantly looking for, and finding, "inefficiencies"—market trends, such as the so-called "January effect," that seem to persist over time.

Recently, economist Mike Farrell of Aeltus Investment Management Inc. turned up one such pattern that seems to have legs. Noting that the law creating individual retirement accounts went into effect 20 years ago, he figured the hordes of taxpayers rushing to fund or establish IRAs and similar accounts close to the Apr. 15 deadline would have a positive effect on the market.

Sure enough, Farrell found that the average annualized return in the first two weeks of April since 1978 was an impressive 20.7%. By contrast, the average return in the second two weeks of the month was only 13.6%, which is roughly equal to the 14% market return over the whole 20-year period.

A RISKY DEARTH OF DIVIDENDS

Who really benefits from buybacks?

Once upon a time, in the not-too-distant past, investors cared a lot about dividends. In that simpler era, dividends had a major influence on stock prices and long-term total market returns, and companies tried mightily to maintain and boost such payouts.

Flash forward to the booming 1990s, and it's clear that things have changed dramatically. The dividend yield on stocks—dividends as a percentage of share prices—has plunged to an all-time low of 1.4%, yet the market has doubled in the past three years, and investors keep funneling money into mutual funds. Meanwhile, companies are paying out record-low shares of earnings in the form of dividends (chart).

The conventional wisdom is that

these trends reflect changing economic realities and investor preferences, so they're not really worrisome (BW-May 11). But Wall Street economic consultant Peter L. Bernstein isn't so sure. "It's time," he says, "to ask who really benefits from the downgrading of dividends—shareholders or managements?"

A new study by Christine Jolls of Harvard University's law school sheds light on the issue. Jolls examined the relationship between stock-buyback plans and stock options awarded to top execs. Most companies unveiling buyback plans say their goal is to raise stock prices by reducing shares outstanding, thus boost-



ing per-share earnings. By using cash this way, they can provide shareholders with capital gains rather than more highly taxed dividends.

Jolls doesn't dispute this, but she points out that the tax advantage of capital gains is nothing new, whereas buybacks have boomed only in the past 15 years—just as stock options for top-level execs have taken off. Since these are the same folks who make the decision to adopt buyback plans—and such plans obviously benefit them by boosting stock prices—she wondered whether there was a connection.

Looking at 350 major companies in 1992, Jolls found a strong correlation between those implementing buybacks and those with a large number of outstanding executive options. By contrast, companies providing top execs with other forms of incentive payments were far less likely to implement buybacks. And Jolls found no relationship between buybacks and options for lower-level employees.

Of course, just because top management benefits from buybacks doesn't mean shareholders can't benefit as well. Indeed, options are supposed to focus management's efforts on promoting shareholder value.

The problem, Bernstein says, is that managements aren't simply replacing dividends with buybacks. As earnings

have surged in recent years, companies have decided to forego dividend buyback programs or not. Moreover, tax advantage from buybacks does help people who invest in tax-sheltered pension accounts or in mutual funds that throw off short-term capital gains that are subject to ordinary income-tax rates.

By hanging on to an outside share earnings, Bernstein argues, managements are making reinvestment decisions that should be made by the market—that is, by stockholders. They might choose to invest in other companies. They are also exposing investors to more risk, since returns become more dependent on uncertain capital appreciation and less on cash flow from relatively reliable dividend streams.

In fact, Bernstein's own research indicates that low dividend-payout ratios historically have been, and continue to be, a strong predictor of weak future earnings growth—including the sharp down that is now under way.

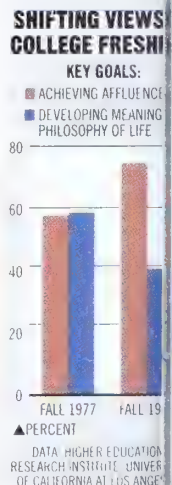
MORE FRESHMEN WANT THE MONEY

Fewer care about wider issues

Judging by the latest annual nationwide survey of college freshmen researchers at the University of California at Los Angeles, students are becoming increasingly focused on material interests and disengaged from political, social, or wider educational goals.

Some 75% of freshman surveyed fall chose becoming "very well off financially" as an important objective, versus 50% interested in developing a meaningful philosophy of life. By contrast, back in 1977, both goals were cited by nearly 60% of students. In addition, fewer than ever said they favored tax hikes on the wealthy or to reduce the deficit.

Students backed away from wider social and political issues. Those concerned with promoting racial understanding or cleaning up the environment dipped to 10-year lows. And those interested in keeping up with political affairs hit an all-time low.



Let Prudential Securities Guide You Through Today's Stock Market

Call for your free copy of PruPicksSM

If uncertainty in today's stock market has you thinking twice about your investment strategy, it's time to tap the renowned research abilities of Prudential Securities. In our latest bi-monthly PruPicksSM report, you'll find out which stocks have earned Prudential Securities top buy recommendations.

The Prudential Securities Edge

— Professional Advice

Prudential Securities Financial Advisors offer personalized advice and long-term planning to help keep your portfolio on target.

— Top-Flight Research

Behind every Prudential Securities research recommendation is a dedicated team of analysts who, year in and year out, are honored among the industry's elite by publications such as *The Wall Street Journal*.

— Investment Choices

No matter what your investment objectives, Prudential Securities has the right solutions — stocks, bonds, annuities and mutual funds — to help you build a well-diversified portfolio.



Zero in on our top rated stocks. Each month, our analysts review all Prudential Securities buy-rated stock—looking at fundamental and technical characteristics as well as economic and market conditions—and place the most attractive stocks on our prestigious Select List. You'll find them all in PruPicks.

See individual stocks analyzed in detail. Every stock featured in PruPicks comes with an in-depth profile including an overview of the company's activity, a performance outlook, informative charts and statistics.

Get an expert perspective on what's happening in the market. Each edition of PruPicks brings you insightful market commentaries and investment recommendations from Prudential Securities top investment experts.



Call Prudential Securities today. For your complimentary copy of PruPicks, or to find a Prudential Securities Financial Advisor near you, call:

1-800-THE-ROCK
ext. 1014

Or visit Prudential at:
www.prudential.com



BY STEPHEN H. WILDSTROM

WIN98: JUMP IN FOR A SPIN

It has enough new features to make an upgrade worthwhile for most people

Any day now, CD factories around the world will begin stamping out millions of copies of Windows 98. At about the same time, the Microsoft publicity machine will move into high gear, trying to persuade you to plunk down \$90 or so for a copy on June 25, when—anti-trust officials willing—the operating system update goes on the market.

I've been watching Win98 develop since last fall through a series of test versions that culminated in the nearly final Release Candidate 2. The result is a solid, evolutionary product. Win98 smooths out a lot of Windows 95's rough edges, integrates components that have been released for Win95 over the past three years, and introduces a number of useful, but not earth-shaking, features.

Whether an upgrade makes sense for you depends on how you use your computer and how happy you are with your current setups. For most people, it will be a worthwhile upgrade, though not in Windows 95's "must-have" class.

CRASH PROTECTION. If you have been using Win95 with the Internet Explorer 4.0 browser and Active Desktop, Win98's screens will look not just familiar but identical. Don't be fooled. Despite Microsoft's claims of integration, Internet Explorer was tacked onto Win95. In Win98, the integration is real and deep,

and the payoff is a system that is far less prone to crashes than Win95 with IE 4.0 was.

Anytime you open a file window or use Windows Explorer to manage files, you're running the browser, and you quickly come to depend on the forward and back buttons to navigate. You can use Netscape Navigator or any other browser to look at Web pages.

The browser interface is just one of the features that had been available separately and are now rolled into the operating system. Others include NetShow, for playing audio and video off the Web, and NetMeeting, for Internet telephony, videoconfer-

use of disk space. FAT32 has been available to computer manufacturers since October, 1996, but Win98 is the first time it has been offered to individual buyers and the first time it has been possible to convert existing disk drives to the system.

GET ON THE BUS. Several features are brand-new to Win98. Probably the most important is support for the universal serial bus, or USB, an easier and more

Chairman William H. G. III demonstrated Win98 (recent trade show). As printers, modems, drives, and other devices arrive on the market in coming months, hooking up accessories to PCs will, for the time, become truly simple.

I'm less certain about the value of new features designed to make it easy to view broadcast or cable on your PC. Right now there's not much hardware available to handle Win98's TV capabilities, but I'll take a closer look at these features in a future column.

Win98 also contains a variety of changes designed to make badly needed improvements in the stability of Win95, including the automatic inspection and repair of the local system files. Microsoft says it has fixed 3,000 Win95 bugs, many of them previously acknowledged.

But it will take some time and experience to tell how much improvement the changes will bring. The same is true of Win98's ability to fine-tune your software, partly by automatic downloading of updates from the Internet.

I have installed Win98 a dozen times without running into any problems. I guess that's because Win98 is an update to Win95 rather than a new system, set-up is likely to proceed without difficulty. Still, you are completely satisfied with your present Win95 setup, you may want to leave alone until others shake the bugs out of Win98. And many businesses may prefer to wait out for the more work-oriented Windows NT 5.0, which is expected around early 1999. Most people, however, are likely to consider the half-hour or so of installation as time and money spent.



WHAT TO DO ABOUT WINDOWS 98

WHY GET IT NOW

- ▶ Truly integrated Internet access and Web browser
- ▶ Easier connection of accessories through universal serial bus
- ▶ Improved disk storage and ability to handle larger drives

WHY SKIP IT—OR WAIT

- ▶ \$90 price steep for an upgrade
- ▶ Many entertainment-oriented features of little business value
- ▶ Fixes old bugs, but waiting lets others discover the inevitable new ones

encing, and document-sharing.

One of the most important newly integrated features is an improved system for storing files called FAT32, which allows much more efficient

versatile method of connecting accessories. Some USB devices have been around for more than a year, but the difficulty of making them work with Win95 has stopped them from becoming widely used.

I plugged in a Storm Technology Scanner, a Connectix VideoClip video-capture port, and an Intel video camera

into a Win98 PC, and each device was instantly recognized and installed with no fuss (although the scanner was the same one that caused a system crash when Microsoft

JAMES C. COOPER & KATHLEEN MADIGAN

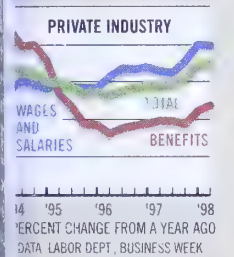
THE ECONOMY LOOKS READY TO TAKE A BREATHER

It's still too early to tell how long the pause will last

U.S. ECONOMY

The economy galloped through the winter like Real Quiet in home stretch of the Kentucky Derby. So it isn't surprising that growth is set to slow this quarter—if enough for consumers, homebuilders, and businesses to catch their breath. Just how much will with cool off, though, and will any slowdown last the second half? The answers are crucial for monetary policy and Wall Street.

COMPENSATION GROWTH IS CREEPING HIGHER



panies scale back their rapid pace of inventory ding? The data on these questions are still sketchy, they suggest that some degree of slowing is already rogress. However, any second-quarter downshift will have to inue in the second half to ease the growing pres- on the labor markets and assure that the Federal ervice keeps policy on hold. On that note, the data of little help. In fact, the supports under domestic and—from income growth to confidence to financial litions—remain solid. And even though labor costs eased less in the first quarter than they did in the th quarter of last year, the annual growth trend inued to rise last quarter (chart).

9% SURGE in domestic demand was the power nd the first quarter's surprisingly strong 4.2% ad- ce in real gross domestic product. The economy grown at an annual rate of 3.8% for the past two s. That's the best two-year performance in nine s, and back in 1989 inflation was 4% and rising. In first quarter, the price index for gross domestic luct showed a 1.4% inflation rate, the lowest rate e 1965 and down from 2.3% two years ago. xceptional first-quarter gains in consumer spend- up 5.7%; residential construction, up 17.7%; and nness investment in high-tech equipment, up an

astounding 45.8%, led the way. The overall increase in GDP was especially stunning given that Asian weak- ness widened the trade deficit to a postwar record. By itself, that larger gap subtracted 2.2 percentage points from the quarter's growth rate.

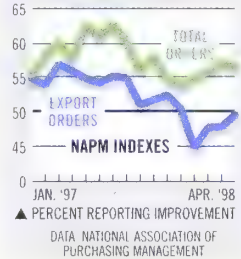
In the second quarter, at least two of those first-quarter demand leaders are set to slow, perhaps substantially. Home- building fundamentals are still strong, but the data will look weaker, because measures of activity last quarter were in- flated by unusually warm weather. Also, the surge in high-tech investment will not be repeated. It was the largest quarterly increase in two decades and by itself account- ed for more than a third of last quarter's GDP gain.

Consumers are also unlikely to repeat their first- quarter binge, but the slowdown may not be substan- tial. Weekly retail reports show strong gains for April, and motor-vehicle sales shot up to a 15.5-million annu- al rate, from a 15.1 million average in the first quarter. Weakness in Asia will keep the trade gap wide this quarter. But any further large deterioration is unlikely. Some of the trade deficit's first-quarter widening was a one-time occurrence, reflecting an often cited data quirk that inflates the first-quarter deficit. So trade is likely to play a comparatively neutral role in growth this quarter.

AT THE BEGINNING of the second quarter, though, manufacturing was still feeling the chill from Asia. The National Association of Purchasing Management's index of industrial activity—comprised of survey re- sponses on output, orders, employment, inventories, and delivery times—fell to 52.9% in April, from 54.8% in March. The index of export orders showed some weakness in foreign demand, but not as much as the record low in January (chart). The rebound may signal that the Asian drag is bottoming out.

Looking to the second half, Asia is far from the chief concern of the NAPM's membership. That distinction goes to labor costs. The employment cost index, a gov- ernment gauge of wages and benefits, rose a less-than- expected 0.7% in the first quarter, down from the fourth quarter's 1% increase. However, the annual trends in both wage growth and benefits are still up. Not sur-

IS FOREIGN DEMAND CRAWLING BACK UP?



prisingly, cost pressures are the greatest in the Midwest and the South, where job markets are the tightest. Labor costs will remain in an uptrend until the labor markets start to loosen up.

THE FIRST QUARTER was also strong because businesses did not slow their inventory building as expected. Instead, real inventories grew at a \$77 billion annual rate, more than the \$74 billion in the fourth quarter.

Three factors, though, argue that the inventory buildup is not sustainable. First of all, stockpiles have been growing faster than sales for four quarters now (chart). Second, in the past, large inventory accumulation lasted only about a year, as this cycle has already. And third, the extra stockpiling was a response to the sizzling demand of the past year. But with spending expected to slow this quarter, businesses will adjust their inventory levels accordingly.

That may already be happening. In March, factory stock levels grew 0.3%, after a 0.7% jump in February. And the NAPM said that companies reduced inventories in April. Moreover, the purchasers' outlook shows that businesses expect to cut their inventories throughout the year to keep them in line with sales.

What was interesting about the first-quarter buildup was that a sizable chunk of the goods came from overseas. U.S. factory production grew at only a 1.8% pace last quarter, while merchandise imports surged 10.2%.

Since final sales of goods rose at a 7.9% pace, much the import surge apparently wound up in warehouses.

Of course, inventories are notoriously volatile. In this expansion, the average quarterly swing in stock levels has been about \$15 billion, or nearly one percentage point of GDP growth. The good news is that—since imports were likely a big contributor in the first-quarter buildup—the inventory slowdown in the second quarter will lead to a dropoff in import growth. That means the subtraction to GDP growth from inventories will be partly offset by a reduced drag from imports.

The mix of first-quarter growth—robust domestic demand and inventory building counterbalanced by weak foreign sector—bolsters the idea that the economy is slowing this quarter. But it's too early to tell if the spring break is just a pause or the start of another soft landing. The outcome is crucial to business executives who, like the nation's purchasers, are concerned about the rising trend in labor costs and the shortage of skilled labor. That obstacle to business expansion and profit gains won't go away unless this racehorse economy slows to a trot for more than one quarter.

INVENTORY GAINS OUTRUN DEMAND AGAIN



FRANCE

GROWTH AS FAR AS THE EYE CAN SEE

As the Jan. 1, 1999, launch for Europe's single currency, the French economy is enjoying a solid recovery that should extend into next year. Weakness in Asia will depress exports, but with consumer and business confidence on the rise, increased consumer spending and business investment will boost the economy. Strong growth also promises further reductions in the budget deficit.

Real gross domestic product should grow 3% in 1998, up from 2.3% in 1997. That faster pace will ensure continued improvement in France's labor markets. Unemployment has declined in six of the past seven months, pushing the March jobless rate to a two-year

low of 12%, from 12.6% last June. March hiring was broad with gains in temporary and full-time jobs.

Stronger labor markets head the list of pluses in the consumer outlook. Better job growth and a one-percentage-point drop in inflation, to 0.8%, over the past year are fueling growth in real incomes. Also, tax-law changes have lessened the incentives to save, generating more spending. Sales of big-ticket items such as autos and furniture are robust.

In addition, 10-year bond yields hit a record low of 4.85% in late March, and they remain low enough now to hold fixed mortgage rates at about 5%. Housing starts jumped in March, helped by

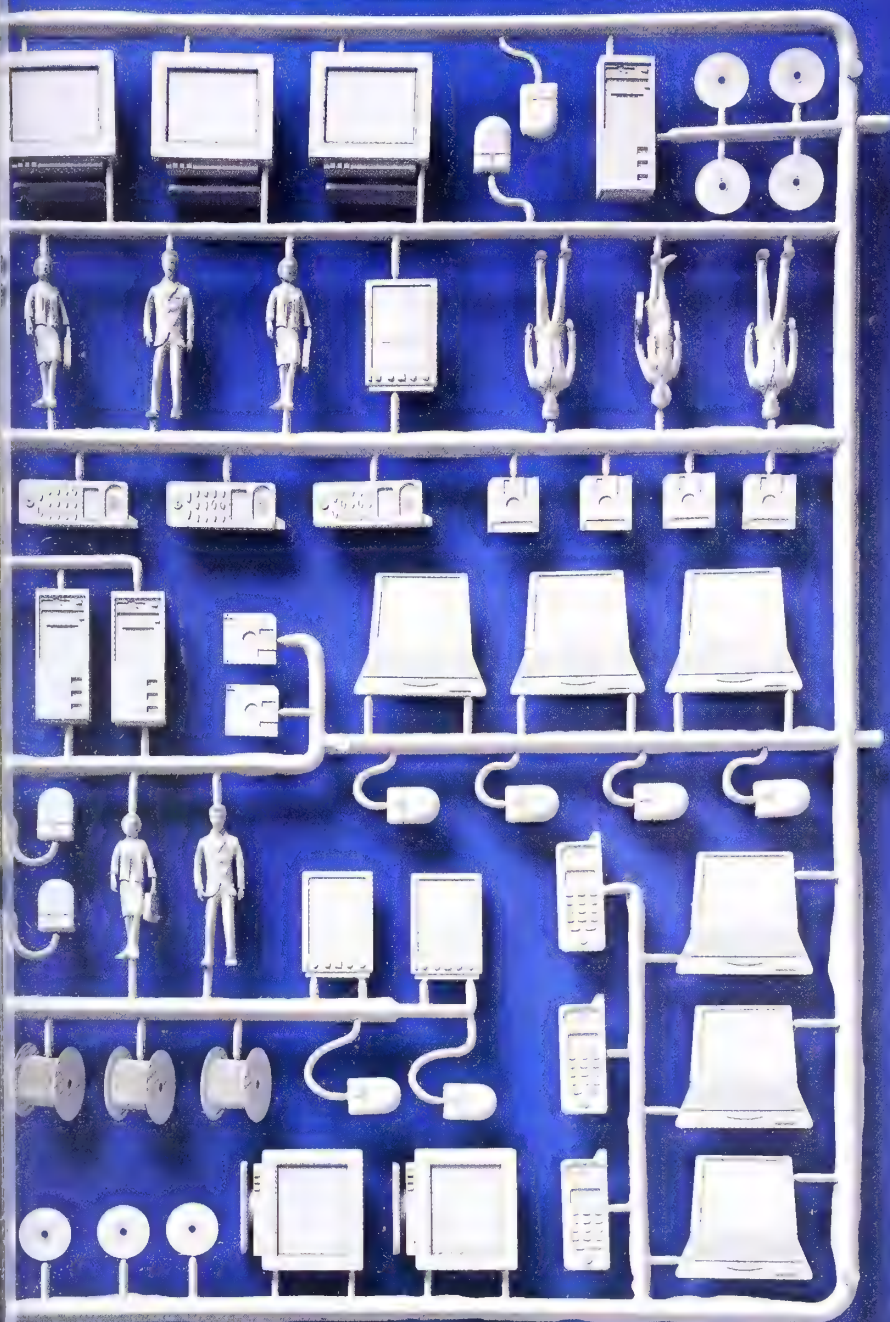
mild weather, and housing is also getting a boost from a new tax break for people who buy a second home and rent it out.

Amid firmer domestic demand, the latest survey data show that businesses are gaining the confidence to increase their output and inventories and invest in new equipment. Makers of capital goods are especially optimistic.

Right now, French manufacturing—and the overall economy—are stronger than Europe's generally. And the resulting healthy inflow of revenues is why the government is projecting that its budget deficit will fall from 3% of GDP in 1997 to 2.9% in 1998 and 2.3% in 1999. But there is a downside: All that shrinkage is cyclical. Without new structural cuts, the fiscal improvement will reverse when economic growth slows.

CAPACITY USE HITS AN EIGHT-YEAR HIGH





1200 desktops.

700 laptops.

The London office.

Maude from Accounting.

212 printers.

The internet.

Edwin from R&D.

The Hong Kong office.

Audrey from Finance.

The intranet.

The New York office.

88 servers.

Billy from Sales.

Ready?

Put them together.

Managing an IT network for a worldwide company is a tremendous endeavor. Servicing it can be an even more colossal task. Precisely why you should call Wang Global, an over \$3 billion networked services and solutions provider. We will integrate your entire company's infrastructure; desktops, software, peripherals, into one remarkably seamless network. Then manage and upgrade the network as your company grows. And grow it will. 1-800-262-3696. www.wang.com

WANG
GLOBAL
Networked Technology Services

TRUSTBUSTERS

THE COPS CONVERGE ON MICROSOFT

Justice is ready to pounce on Win98, as state AGs map their own attack

By the time Bill Gates assembled 60 business associates on May 5 to help him stage a last-minute public plea for mercy from trustbusters, the clock was running out. Barring a last-minute settlement, BUSINESS WEEK has learned, the Justice Dept. is prepared to launch an expansive antitrust action against Microsoft Corp. within days. Ideally, the agency wants to pounce by May 15, the date on which the software giant is scheduled to start shipping the Windows 98 operating system to PC makers. In any event, Justice wants to move no later than June.

Meanwhile, officials from states including Texas, New York, and California are in the final stages of assembling their own lawsuit—probably to be filed in federal court and most likely with some coordination with the Justice Dept. So far, the states are tight-lipped about

what they're after—except to say that they hope to force Microsoft to ship a version of Win98 without an integrated Web browser. According to sources in these states, the suit could come early in the week of May 11. "We're waiting for final approvals from the top guys," the source says.

Gates's May 5 rally was staged to head off a rumored move by the states to prevent shipments of Win98 entirely—a threat that now seems unlikely. Then he flew to Washington to deal with his bigger problem: the federal probe.

During a two-hour meeting with Justice's antitrust division chief Joel I. Klein at the offices of Microsoft's law firm, Sullivan & Cromwell, Gates made his case and listened to Klein's concerns. A Microsoft spokesman says that Gates was not asked whether he's willing to make an accommodation, such as hiding the icon that leads to the Internet Explorer browser on Win98. "We're going forward with integration," says the spokesman.

BROWSER-LESS. Justice, too, is going forward. Sources familiar with the case have told BUSINESS WEEK how the agency would proceed. The heart of the matter is the charge that Microsoft uses illegal means to protect its monopoly in PC operating systems and to extend monopoly power into other markets.

The feds are prepared to launch a quick court action to force Microsoft to alter Win98. By bundling the Internet Explorer browser, Justice lawyers have concluded, Microsoft gives PC makers little choice but to distribute its browser rather than competing products, while still allowing the sale of an integrated version. Justice would ask the court to force Microsoft to offer a browser-less version of Win98 that would be sold at "a commercially reasonable" price—meaning significantly less than the version with the browser. The idea is to give rival browser suppliers such as Netscape Communications Corp. an opportunity to compete. Initially, Justice may ask Microsoft to simply hide the browser. Later it may press for a fully browser-less Win98.

Another immediate action would be aimed at the contracts Microsoft uses to

dictate what PC makers show on the opening screen of computers that run Windows. Microsoft has insisted that certain of its programs, including Internet Explorer, show up as icons. Justice gets its way, PC makers would be allowed to install whatever they want.

Also on Justice's list of immediate remedies is a ban on all Microsoft designs designed to promote its browser at the exclusion of rivals'. To head off litigation, Microsoft has given up contract language that forbade Net services that featured Explorer from telling new users about

SEE ALSO...

INTEL Will the chipmaker be next? 36

SPIN Gates, master of PR overkill 37

WINDOWS 98 Its launch will be low-key 38



er browsers. But online providers like America Online and CompuServe are still mired by such contracts.

The Justice suit will also address the larger issue of bundling in general—to determine what features can and can't be included in the operating system. Justice lawyers are weighing whether including services such as voice recognition, video streaming, and messaging will eat off growing markets. In cases where it may be a possibility, the agency would ask Microsoft to price those features separately—like the browser. Microsoft could still bundle features, however, if the company proves there are separate markets for these functions. Meanwhile, Justice lawyers are also considering remedies aimed at “undoing the effects” of Microsoft's bundling of the browser—including a sort of affirmative action program to make up the ground Netscape lost to allegedly illegal maneuvers by Microsoft. Netscape's market share, which once stood at 85%, has dropped to 60%, while Microsoft's share has risen from zero to 40%. Justice is exploring ways to give Netscape a better crack at PC makers, other service providers, and other chan-

nels of distribution. It might even require Microsoft to include a copy of Netscape Navigator with Windows, some experts speculated.

Microsoft isn't about to accept anything so drastic without a massive fight. It's willing to make minor compromises, but, according to Paul Maritz, group vice-president in charge of platforms and applications, “nobody should think we won't be really serious about things that are core to our business.” Microsoft denies it has broken antitrust laws and claims the right to decide for itself what features it will add to its operating system. It's adamantly opposed to any government move that would force it to sell features separately. Says Maritz: “An à la carte menu would be a nightmare for users and add years to our development of operating systems.”

ALL UPHILL. What about something as simple as disabling Internet Explorer? Microsoft remains opposed to the idea of a browser-less version of Windows 98. But company officials have conceded that it's easy to hide the Internet Explorer browser icon so it doesn't appear on the Windows desktop screen.

THE FEDS' TWO-PRONGED ATTACK

SHORT-TERM:

- Take Microsoft to court to force it to make available a browser-free version of Windows 98
- Cancel Microsoft contracts that now discourage online Internet service providers from offering rival products
- Allow PC makers to decide what appears on the opening screen

LONGER-RANGE:

- Permanently prohibit bundling of browser
- Initiate market remedies to help companies such as Netscape, allegedly injured by Microsoft's business practices, to regain share
- Decide what software elements Microsoft can and cannot connect to the operating system

What they most fear—and what prompted Gates to seek public support and that meeting with Klein—is a court injunction that orders the company to remove the browser code from Win98, which could delay shipment by months, according to analysts.

If either Justice or the state attorneys attempt to get an injunction to block the release of Windows 98, it's likely to be an uphill struggle. “Windows will be very hard to stop,” admits one attorney representing a Microsoft rival. “They'll have to show irreparable harm. That will take a lot of convincing.” A temporary restraining order is more readily achievable—but it only lasts a few days until a hearing can be held.

As Justice puts the finishing touches on its suit, Netscape and other Microsoft critics continue to hope for more draconian relief. Gary

Reback, a Palo Alto (Calif.) attorney who represents 10 high-tech clients, is calling for “structural” changes that will prevent Microsoft from abusing its monopoly power. “What the government does has to change the fundamental calculus of market power,”



says Reback, who favors breaking up Microsoft.

Until now, Justice officials have said they didn't foresee seeking a breakup. But they now concede that could be the result if the court concludes that splitting the software giant is the best solution.

Any sort of remediation would certainly be welcome at Netscape. The Web browser pioneer has posted losses and

laid off employees as its market share has dwindled. Says Roberta Katz, Netscape's vice-president for legal affairs: "We don't sit around and say, 'Woe is us.' But you have to ask how big would we have been if we weren't subjected to illegal exclusionary behavior? That's worth a lot."

With D-Day approaching, an eleventh-hour settlement seems the only

way out for both sides. Otherwise, Bill Gates can expect to make many other high-profile appearances to tout Microsoft's unfettered right to design products as it sees fit. Only, next time the venue may not be a New York rally, but may be a federal court.

By Susan B. Garland in Washington and Steve Hamm in San Mateo with Mike France in New York

YOU'RE THE NEXT TARGET, INTEL

When Intel CEO Andrew S. Grove hands over the reins to Craig R. Barrett in May, he may pass on something Intel had hoped to avoid: a federal antitrust action. BUSINESS WEEK has learned that as early as June, Federal Trade Commission staffers are aiming to present to the commissioners a proposed action charging Intel Corp. with illegally using monopoly power to harm rivals and punish customers who cross the chip giant. The agency is also probing whether Intel unlawfully uses its chip dominance to muscle into new markets—an inquiry that could result in a separate action further down the road.

The Intel inquiry has many parallels to the Justice Dept.'s case against Microsoft Corp., the other half of the "Wintel" duopoly that dominates computerdom. As in the Microsoft case, there will most likely be a quick surgical strike to halt anticompetitive behavior. Meanwhile, investigators probably will pursue a wide-ranging probe of alleged monopoly abuses. "You need to streamline. Otherwise you're heading off into a Vietnam," says Stephen Calkins, a former FTC general counsel who teaches at Wayne State University law school. Intel won't comment on the potential case. But the investigation differs in one major way from the Microsoft probe: The FTC isn't under the deadline that the launch of Windows 98 placed on Justice. So FTC lawyers are taking their time to ensure they have enough evidence to build a strong case.

Sources familiar with the FTC's investigation say it is initially zeroing in

on charges that Intel retaliated against two customers that sued the company in patent disputes. After the companies—Digital Equipment Corp. and Intergraph Corp.—filed separate suits, Intel cut off chip supplies and technical information. That didn't sit well with U.S. District Judge Edwin L. Nelson, who on Apr. 10 slapped an



SOME WELCOME: Barrett may have to battle the FTC

injunction on Intel to stop such behavior toward Intergraph. Industry executives say the FTC probe is looking at how Intel uses such intellectual-property "blackmail" to keep customers in line.

PRIX FIXE? The FTC also is sifting through complaints that Intel discourages computer makers who buy processors from rivals. The company's most obvious weapon here is the famous Intel Inside marketing program. The chipmaker paid out an estimated \$1 billion in rebates last year to PC companies that use Intel chips exclusively. Rivals call this practice exclusive dealing and charge that it freezes out competitive products and allows price-fixing.

Industry execs who have worked

with the FTC say it is also taking a careful look at Intel's growing control over the basic design of PCs. Parts of the PC that used to be based on "open" standards are increasingly getting superceded by Intel technologies, which the chipmaker usually has licensed for free to all comers. But details about the latest innovation, the patented connector used in the Pentium II, are being kept secret. That could shut out rivals like Advanced Micro Devices Inc. and National Semiconductor Corp. if, as expected, motherboards designed for Pentium IIs become ubiquitous in PCs.

Another FTC concern: efforts by Intel to leverage its processor monopoly into other chip markets. Intel's share in chipsets—the companion chips that work with the microprocessor—shot from 8% in 1993 to more than 75% last year, while rivals such as VLSI Technology Inc. were driven out. Now, Intel is moving into graphics and networking chips. Industry execs say Intel can force PC makers to buy these other chips by bundling them with processors on Intel motherboards. The FTC might label that monopoly leveraging.

If the FTC decides to go ahead and pursue Intel, how will it fare? The agency isn't pushing any far-out legal principles, and it has had a good track record lately with actions such as its blocking of the Staples-Office Depot merger. Indeed, competitors claim its case may be stronger than Justice's Microsoft action. That's not exactly the sort of kickoff that Intel's Barrett was anticipating.

By Andy Reinhardt in New York and Susan B. Garland in Washington



SERIOUS THREAT? Flanking Gates as he defends Win98 are CEOs Pfeiffer of Compaq and Halpin of CompUSA

COMMENTARY

By Amy Cortese

EMPEROR OF HIGH TECH, SULTAN OF SPIN

You might have thought he was talking about a communist menace—or even an Old Testament plague. What software mogul William H. Gates III was warning the public about was what might happen if antitrust enforcers interfere with sales of Microsoft Corp.'s Windows 95. A delay, declared Gates, "would affect an entire ecosystem of companies." It would "hurt the American economy and cost American jobs," he went on, and even "... create an opening for foreign companies."

Come on. Just months ago, Microsoft execs were saying that Win98 as "no big bang," merely "an interesting upgrade" of Windows 95. Now that it must fend off an impending suit, suddenly, this Windows "tune-up" the software equivalent of Viagra: a magic bullet to lift PC sales and keep the economy strong.

ISSUE ADS. So where's the truth? Who cares? It's all in the spin. On May 5, as Microsoft braced for a possible federal antitrust suit and the prospect that attorneys general of some 13 states would block the sale of Win98, Gates wildly spun his tale to reporters summoned to a Manhattan auditorium. As Compaq Computer CEO Eckhard Pfeiffer and some 60 noticeably lesser lights looked on stoical, Gates and his lieutenant Robert J. Eberbold warned about innovation that could be quashed by government interference. "What is at stake is the ability to continue to make the personal computer even better and easier to use," Gates said. There, to bolster his claim were groups such as the

National Center for Disability Services and National Council on Aging.

This last-minute effort is the culmination of a Microsoft spin campaign that has been building for months. As the Justice Dept. tried to enforce its 1995 consent decree last fall, the company hired top lobbyists and took out "issue ads" that spoke loftily about unfettered innovation in a free-enterprise system. There was even a faux grassroots movement—orchestrated by Microsoft public-relations agency Edelman Public Relations Worldwide and then leaked by

"[A Win98 delay] would ... hurt the American economy and cost American jobs"

WILLIAM H. GATES III

Microsoft Corp.

a disgruntled agency employee.

It's the type of campaign—at once frightening and condescending—that Big Tobacco has run for years. And it's getting the same results: The public tunes out and the prosecutors fume. "Microsoft is saying that Windows 98 is so absolutely essential to the PC industry that even a slight delay will cause immense economic damage," says Connecticut Attorney General Richard Blumenthal. "If that's true...[there's] more reason to believe the product is so dominant that anticompetitive conduct is especially dangerous."

It's true some companies will be hurt if Win98 is held up. PC makers, for example, could lose \$2 billion in incremental computer sales, figures Michael K. Kwatinetz, an analyst at Deutsche Morgan Grenfell. Ironically, a 5% dip in PC sales would mean only some \$40 million in lost revenues for Microsoft, he calculates.

Microsoft might have a monopoly in operating systems, but not in hokey PR. On the eve of the May 5 event, Netscape Communications Corp. E-mailed journalists a three-page document containing "important questions" we might want to ask Gates. And anti-Microsoft groups, such as the Netscape-backed ProComp, hastily called a counterspin session—outside the Microsoft meeting—attended by reporters too quote-hungry to come in out of the rain. Microsoft's "was a political PR rally to derail an enforcement effort," protested Edward Black, president of the Computer & Communications Industry Assn. (at least from what I can make out of my rain-splattered notes). "We think we speak more for the industry."

The best industry spokesman was Ted Johnson, chief technology officer of software maker Visio. Before joining Gates & Co. onstage, he wryly observed the industry debate comes down to a simple goal: "This is not about curing cancer or ending world hunger. This is about selling more software and hardware. It's not all that noble."

Cortese covers the computer industry for BUSINESS WEEK.

SOFTWARE

WIN98: TIPTOEING INTO A STORE NEAR YOU

Microsoft's upgrade launch will be surprisingly low-key

Should the trustbusting dust settle and Microsoft's Windows 98 ship on its June 25 schedule, will it be a hit or a high-tech snore? Listening to Microsoft execs, one might peg it near the low end of the popularity meter. "The beauty is it's not a radical change," requiring more powerful computer hardware, says Windows marketing director Yusuf Mehdi. "It's a tune-up."

Mehdi may be a bit too modest. While Windows 98 won't revolutionize software the way Windows 95 did, it's a substantial step up for consumers. For starters, it finally delivers features that make PCs much easier to set up and use—a feat of no small magnitude. It weaves in the simplicity of Internet

will be sold during the second half of the year, vs. 8.8 million copies of Windows 95 sold in its first four months.

This program could be a sleeper, though. There's an installed base of well over 200 million Windows-based PCs now, nearly three times the number that existed when Windows 95 was launched in August of that year. Analyst Michael K. Kwatinetz of Deutsche Morgan Grenfell Inc. conservatively figures that 2% of today's Windows users will upgrade over the next four to six quarters, accounting for \$200 to \$300 million in sales—a fraction of Mi-

crosoft's expected \$16 billion to \$17 billion in 1999 revenues. That's based partly on worries that government regulators will slow Win98's launch. "We expect it to be much higher," Kwatinetz says—easily as many as 10% of all Windows users could snap up the new software, generating incremental revenues of \$1.6 billion.

Retailers are praying he's right. With nearly one-third of new consumer PCs selling for \$1,000 or less, retailers' margins are wafer-thin. Win98 offers the prospect of millions of customers

buying new computers, extra software, or computer peripherals. "The entire phenomenon will be as big as Windows 95, but it will be over a longer time," predicts Nathan P. Morton, CEO of the 96-store Computer City chain.

Most retailers launched their Windows 98 ad campaigns on May 3. Superstore chain CompUSA Inc. is offering \$98 discounts on airline tickets, hotels,

and car rentals to people who preord Windows 98. The upgrade carries a suggested retail price of \$109, but many stores are offering it for \$90 to \$95—same as Windows 95. Retailers also are planning special discounted bundles of PCs and hardware add-ons, hoping Windows 98's easy plug-and-play will help them sell scanners, graphics accelerators, joysticks, and the like.

PC makers aren't expecting any surge in demand from Windows 98, but they believe it will help them ma-



REAL PLUG AND PLAY

Win98 supports the PC industry's Universal Serial

Bus standard, which lets you plug in all kinds of hardware to a universal plug—finally making

good on the promise of "plug and play." Win98 recognizes the new device you're adding and automatically loads the correct driver. You can even use more than one joystick—great for multiplayer games.

WIN98 HAS LOTS OF NEW FEATURES

ACTIVE CHANNEL BAR This option lets you click on icons for a variety of preselected Web sites, including Disney, Warner Bros., and Microsoft's own sites. You also can subscribe to Web sites and have info like news and stock-price updates delivered directly to your PC screen.



browsing for viewing Web pages, as well as files on your hard drive. And it makes attaching devices such as printers as easy as plugging in a radio. Win98 PCs even fire up more like a TV—in just a couple of seconds. Such niceties could help Microsoft and the PC industry push PCs into the 55% of U.S. homes that have yet to purchase one.

Still, most analysts are decidedly cool on the product's sales prospects. Sure, it will ship on about 90% of the PCs sold in the second half of the year, but Microsoft Corp. isn't raising its price of about \$40 to \$45 per copy to PC makers, so those sales won't bring in a lot of extra revenues. Upgrades are where the company gets its incremental sales, but Dataquest Inc. analyst Chris Le Tocq expects only 4.8 million upgrades

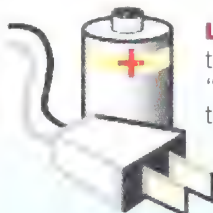
sales—especially to first-time buyers who might be attracted to its ease of use and to PC enthusiasts who crave the latest bells and whistles. Sony Electronics is pegging its first PCs equipped with digital videodisks to the Win98 launch. Sony also hopes the new operating system will help drive demand for its new digital videocameras.

TV TURNOFF. Some Win98 features likely to land with a thud, though—at least with PC makers. Don't expect many of them to ship TV tuners with their new models. Chris Pedersen, consumer PC brand manager for Hewlett-Packard Co., says focus groups have shown that "watching TV on a PC screen doesn't have a lot of value."

Criticism—and the threats of pending lawsuits—help explain why Microsoft's marketing of Win98 is so muted. Microsoft won't do any advertising this time around. And overall, it's not spending anywhere near the estimated \$200 million it spent on rolling out Win95. Oddly, though, Microsoft execs say the legal controversy swirling

around Windows 98 may prove its most powerful come-on. "People who hear about it take an opportunity to find out about the product, it's a great thing for us," says Mehdi. Now, that's more of the Microsoft marketing machine we've come to expect.

By Steve Harte
in San Mateo, Cal



LESS WAITING Startup time is shorter. An "OnNow" feature keeps the PC in sleep mode until you need it.

Get A Life



Our *FlexJet* program gives you all the benefits of owning a business jet for a fraction of the cost.

You can't change the number of hours in a day. But you can take control of your schedule with *FlexJet* fractional ownership. It's not time-sharing. It's better. It gives you guaranteed access any day, 24 hours a day, on as little as four hours notice. Not just to one jet, but to a fleet of Learjet® and Challenger® business aircraft.

So, instead of hub-hopping between the 500 North American airports served by commercial carriers,

you can fly nonstop to any of 5,500. On your own jet. Completely managed by Business JetSolutions™, a company backed by the world's leading business jet manufacturer, Bombardier Aerospace.

You can increase efficiency. Up productivity. Maybe even get a life. All for as little as \$175,000 a year over five years. It's easy. And it puts you right where you should be. In control.

Call 1-800-590-JETS.

B U S I N E S S
Jet *Solutions*



BOMBARDIER
AEROSPACE

Estimated annual after-tax cost of ownership of 1.8 share (500 occupied hours over five years) in a Learjet 31A. Conditions apply. Learjet, Challenger, Business JetSolutions and FlexJet are trademarks of Bombardier Inc.

DEALS

THE FIRST GLOBAL CAR COLOSSUS

If other mega auto mergers follow DaimlerChrysler, it will be hard for them to be this neat a fit

The champagne was on ice at the Dorchester Hotel in London. Earlier in the day on May 6, the board of Chrysler Corp. and the management board of Daimler Benz approved a historic merger, creating a \$130 billion automotive colossus known as DaimlerChrysler AG. The chief executives of two of the world's largest auto makers, Chrysler's Robert J. Eaton and Daimler's Jürgen Schrempp, strode across the room and sealed the largest merger in automotive history—and the third-largest deal ever—with a handshake. The mood was electric as the assembled executives prepared to pop the cork on a pact that would send shock waves around the world. "Both men were enormously energized," says a source close to the deal.

And why not? It looks like a marriage made in automotive heaven. In one bold stroke, the pending merger of Daimler and Chrysler dramatically changes the landscape of the global auto industry. By combining forces, Daimler, Germany's biggest industrial concern, and Chrysler, America's No. 3 carmaker, bring a range of hot-selling models and formidable financial muscle under one garage roof. Simply said, DaimlerChrysler is set to transform

the way the auto industry operates worldwide.

The megadeal, which was set to be formally announced on May 7, unites two of the world's most profitable auto companies—with combined 1997 net earnings of \$4.6 billion. And if ever a merger had the potential for that elusive quality—synergy—this could be the one. Mercedes-Benz passenger cars are synonymous with luxury and sterling engineering. Chrysler is renowned for its low-cost production of trucks, minivans, and sport-utility vehicles. Chrysler is almost wholly domestic, and Mercedes is increasing global sales—albeit within

the confines of the luxury-car market. By spreading Chrysler's production expertise to Daimler operations and merging both product-development forces, the new company could cut costs by up to \$1 billion annually—including \$1.1 billion in purchasing costs, analysts say.

But DaimlerChrysler is about more than cutting costs and filling product and geographic gaps. It's about the emergence of a new category of global carmaker at a critical moment in the industry—when there is plant capacity to build at least 15 million more vehicles each year than will be sold. And overcapacity is expected to balloon to 18.2 million



SCHREMP: An engineer who worked his way up at Daimler

Test-Driving DaimlerChrysler

PRODUCTS There is almost no overlap. Mercedes-Benz luxury cars compete in a market beyond Chrysler's mainstream offerings. Chrysler brings strength in minivans, profitable pickups, and sport-utility vehicles. Mercedes has hot-sellers like the E-class sedan and roadster. The only overlapping model: Mercedes' C-class, which goes against Jeep Grand Cherokee.

GEOGRAPHY Each company is strong where the other is weak. Chrysler derives 93% of its sales from North America. Mercedes-Benz depends on Europe for 63% of its business. Each company is looking to strengthen its position in its partner's home market and conquer emerging markets together.



**MERCEDES
SLK 190
CONVERTIBLE**

es by 2002 as Asia continues to de-
e, predicts Standard & Poor's DRI, a
sion of The McGraw-Hill Companies.
olidation is inevitable; from about
auto companies now, to about 20 in
next century, says DRI analyst Sam
ani.

DaimlerChrysler, then, may be the
member of the 21st century 20. "The
cedes-Chrysler deal sanctions the
ept of auto mergers and is a major
lyst for more," says Joseph S. Phillip-
auto analyst for Lehman Brothers
Eaton, in an Apr. 27 interview with
NESS WEEK, predicted that Western
makers with the wherewithal would
up the troubled auto makers of
h Korea and Southeast Asia. Gener-
lators Corp., for example, is consid-
g a big stake in Korea's beleaguered
woo. In Europe, auto makers such
Volvo, Fiat, PSA (Peugeot/Citroën),
Renault are ripe for takeover.

DaimlerChrysler will have the where-
al. It will have \$130 billion in annual
s and assets totaling \$120 billion. It
have factories on four continents.
Indeed, both partners were giants in
own right. So why merge? Top ex-
ives at the two companies came to
ze that if they continued to go it

alone, their companies could survive as
strong regional players—but might be
forced onto the shoulder in a global in-
dustry. "There are world forces at work
that are driving consolidation," Eaton
said in the April interview. "Two factors
are huge: the worldwide excess capacity
in autos and the Asian economic crisis."

Eaton and Schrempp hatched their
stunning plan in secret meetings over
the past nine months in Germany and
Detroit. Daimler was represented by
Goldman, Sachs & Co. and Deutsche
Bank, while CS First Boston represented
Chrysler. The estimated \$40 billion deal is
being financed by a stock swap of two
Chrysler shares for every one Daimler
share. It will leave Chrysler shareholders
with 43% of the combined entity, while
Daimler stockholders control 57%, say
sources familiar with the deal. That will
make DaimlerChrysler a German com-
pany for tax and accounting benefits,
these sources say.

But the company will have dual head-
quarters. A source close to Daimler says
that Daimler and Chrysler headquarters
will remain in Stuttgart and Auburn
Hills, Mich., for some time to come. "Can
you imagine Daimler leaving Stuttgart?
Can you imagine Chrysler leaving De-

troit?" It will also have co-CEOs—to start.
After three years, however, Eaton is ex-
pected to retire, allowing Schrempp to
take full control, says sources familiar
with the arrangement.

Investors immediately applauded—
pushing Chrysler shares up 7% to 48¹/₂% on
May 6. "Chrysler has the trucks, vans,
and SUVs, and Daimler has the luxury
cars," says Seth M. Glickenhause of Glick-
enhause & Co., an investment firm that
holds 8 million Chrysler shares. "There
are enormous synergies in product."

One of the biggest opportunities is for
the paired company to plunge into new
markets that neither could assay alone.
Neither has much of a presence in Latin
America or Asia, although Daimler does
sell heavy trucks there. Chrysler's inex-
pensive small cars will give Daimler a
vehicle to drive into emerging markets.
"With our [upscale] product portfolio, we
will never be a mass marketer," says a
source close to Daimler. "There are some
markets where [Mercedes] will never be
able to have an impact."

The first venture of the new merged
company likely will be a barebones little
car, smaller than Chrysler's subcompact
Neon model, to sell in Asia and Latin
America. "We would like a sub-Neon ve-
hicle for the international market," says
Eaton. "We started looking at projects
four years ago, and it's something we're
looking at harder now." Ironically, such a
car may be powered by engines to be
made in Brazil in a joint venture be-
tween Chrysler and BMW—Mercedes'
archrival in Germany. BMW declines to
comment on the DaimlerChrysler union.

Indeed, most rivals are too stunned
to react. Both Ford and GM declined to
comment. On the other hand, many in-
dustry watchers immediately questioned
whether the enormously divergent cul-
tures of Auburn Hills and Stuttgart
won't get in the way of all that synergy.
"I can't imagine two more different cul-
tures," says Furman Selz
auto analyst Maryann
N. Keller.

Chrysler's
brushes with

Daimler and Chrysler make for a potent
union because of complementary strengths

CES Both are among the world's richest auto
f, earning a combined \$4.6 billion last year on
f \$130 billion. Chrysler is one of the lowest-
to manufacturers in America—a strength Mer-
could tap to expand beyond its lone U.S. facto-
abama. And Mercedes, thanks to its premier
commands top dollar for its models.

IRE This is where the match could be shaky. To
its brushes with bankruptcy, Chrysler became
st nimble and lean player in Detroit. Daimler,
r, has a history of bureaucratic and ponderous
still, both companies have successfully
oned their products and brands
nt years with stylish new
and daring marketing.



EATON: An engineer
who worked his way up
at GM



**DODGE
DURANGO
SPORTS-UTE**

bankruptcy forged a culture dedicated to speedy product development, lean operations, and flashy design. Daimler remains a buttoned-down, engineering-driven bureaucracy known for conservatively styled products. "The reaction here is shock, excitement, enthusiasm, and concern," says one Chrysler exec.

Schrempp and Eaton are certainly an odd couple. Eaton, 58, is a Kansas-born engineer who worked his way up the ranks at GM before replacing Lee Iacocca as Chrysler chairman in 1993. His soft-spoken manner belies his reputation as a savvy manager. When he took the job at Chrysler, Motown observers expected that his rival, Robert A. Lutz, would bolt. Yet Eaton and Lutz came together to drive Chrysler to record sales and profits. Lutz, 66, now vice-

chairman, is expected to retire soon.

Schrempp, who once trained as an auto mechanic, is also an engineer who climbed the corporate ladder to become CEO in 1995 after 28 years with Daimler. After he won the top post, he forced out his rival for the job, Helmut Werner, who had engineered a turnaround with hot products, like the M-class sport utility vehicle and SLK roadster, and youthful, irreverent marketing.

Can Chrysler and Mercedes live together? It could be tough because they will want to protect their vastly different brands. The Mercedes network "is not the kind of distribution system that Chrysler wants or needs, or even could use," says Keller. Nor is it likely that a Mercedes sedan will one day roll down a Chrysler line. "People buy Mercedes be-

cause they think they're made by guys in white coats," says Keller. "That image better not be contaminated by the idea that it's being built by a bunch of guys in Indiana."

So how will Chrysler and Mercedes help each other without losing their identities? Chrysler's slowly improving quality could take a quantum leap forward with help from Daimler engineers. Any Daimler's diesel engines, for example, could help Chrysler in its efforts to sell subcompacts and minivans in Europe and elsewhere. Chrysler, for its part, has the industry's best supplier relations, while Daimler still relies on strong-arm techniques to get lower prices from its suppliers. Together, they can save on warehousing and logistics for cars and spare parts in both Europe and the U.S. The

COMMENTARY

By Thane Peterson

A GIANT LEAP FOR THE NEW EUROPE

The merger of Daimler Benz and Chrysler Corp. will clearly rock the global auto industry. But the creation of this new powerhouse is more than an industrial megadeal. It's perhaps the first sign that the forces of globalization have succeeded in reshaping Europe Inc. Companies such as Daimler Benz now seem to be strong and confident enough to deal on an equal footing with their American counterparts.

There will be plenty more such deals to come. Hundreds of billions of dollars are now floating around the global economy. At the same time, on both sides of the Atlantic, management cultures, styles of business, and corporate governance standards have largely converged. Now that investors feel equally confident holding shares of Daimler and Chrysler, or SAP and Microsoft Corp., a new class of Euro-American corporation may spring on the scene. All this is happening at a time when corporate Japan is floundering and the Asian tigers are struggling to recover from financial collapse. It seems to

portend a shift in global economic power.

The biggest change is the new gravitas that Europe is taking on as a result of years of restructuring and the launch of its new currency, the euro. The European Monetary Union will expand Eu-

Daimler's bid shows that Continental companies are learning to do American-style megadeals with surprising speed



rope's financial markets, giving companies the wherewithal to prowling for global acquisitions. Already, by creating a larger home market, monetary union is forcing a merger boom that is toughening Europe's corporate players through consolidation. More will take a cue from Daimler and venture across the Atlantic.

Expect European insurance companies such as Allianz or technology groups such as Ericsson, for example, to make mergers in the U.S. Indeed, Europe seems set to take a bigger role in the consolidation of key industries. As a sign that the massive merger between Swiss Bank Corp. and Union Bank of Switzerland last year helped produce such financial deals in the U.S.,

recent Citibank-Travelers deal, says Frank F. Abt, who heads Lehman Brothers Inc.'s European operations, "we've got a \$35 billion deal going on, and everyone is wondering when there will be another for \$50 billion."

European financial markets are now driving the action. Like the U.S. market, they are booming with rich twin price-earnings ratios. Fat prices give European companies more clout in the global takeover market. And in some cases, European American companies are near lookalike from a shareholder perspective. Led by companies such as Daimler Benz and Bank Corp., Corporate Europe is rushing to detailed, U.S.-style earnings reports. Daimler Benz has completely adopted generally accepted U.S. accounting standards, and its share trading in the U.S. as depositary Fast approaching are the days v

o can jointly make internal components like air-conditioning systems and door latches and pool their resources in developing basic technology. Well before anyone knows if DaimlerChrysler is a success, however, its very existence could reshape the industry. Look for auto makers to scramble for partners to ensure survival as one of the 21st century 20. How that plays out is anybody's guess. "The odd man out here seems to be the Japanese," says Phillip Lehman Brothers. "Nissan and Honda in particular have only two legs to stand on—North America and Japan." That might not be enough in this race.

By Bill Vlasic, with Kathleen Kerwin, Detroit and David Woodruff in Frankfurt with Thane Peterson in London and Nathan Spiro in New York

Investor will not have to worry that a partner is cooking its books. Frustrated by demanding shareholders, the class of European CEOs is more profit-oriented, and eager to Daimler CEO Jürgen Schrempp is as cost-cutter and a demanding who has set a goal for all the units to earn 12% on capital. Lining up with Chrysler, America's oldest auto maker, he's likely to set a standard for other European firms. Already, groups from Germany to France's Compagnie des Eaux have also been slashing in hopes of earning investors' favor. They're also likely to look to U.S. for new growth and further opportunities for consolidation.

Any of the Daimler deal, of course, that it isn't a Japanese company making overtures to Chrysler. Indeed, one could have predicted this deal five years ago, when Mercedes was stumbling. S. and Toyota Motor Corp. was leading the world. Now, as the links between American and European companies, even global giants such as Volkswagen, are on the defensive. Japan and Korea of Asia are in crisis now at least because they have avoided opening themselves to scrutiny and are taking restructuring steps that the best of Europe has achieved.

A few years ago, the top brass in Stuttgart headquarters believed that a rival was a sign of weakness. Admission that they couldn't do it on their own. How things have changed in the Old World.

Wurt Bureau Chief Peterson covers Europe.

DETROIT

CARMAKERS MAY BE FLOODING THE ENGINE

Incentives mean revved-up results now—and stalling later

Did somebody say "deal?"

Tempted by cash rebates, low-interest financing, and cut-rate leases, Americans decided April was a fine time to buy a car. After slipping 2.8% in the first quarter, U.S. auto sales surged 6.3% in April, to a roaring 15.5 million-unit annual pace. Hot trucks pushed General Motors Corp. and Chrysler Corp. sales up 8%. Crows GM sales chief Ronald L. Zarrella: "Our game plan is kicking in."

There's more where that came from—at least as long as Detroit is doling out big incentives. This spring's innovation: Owners of vehicles made by the Big Three are getting grocery-style coupons in the mail. But instead of pennies off, these coupons can knock \$1,000 off the sticker of a new car or truck. What's more, Ford Motor Co. and Chrysler say they'll honor coupons issued by rivals. Incentives helped Ford, which has dropped six models since last spring, hold sales even with last year. Those bargains are expected to keep auto sales humming through May.

Trouble is, the boom can't last. And the discount-induced sales may simply paper over an underlying weakness in the market—and postpone a downturn. When the incentive frenzy abates, auto sales are likely to hit a pothole, analysts say. Concedes Steven A. Torok, Chrysler's sales chief: "There will be some payback in July and August."

And when the bubble bursts, carmakers will surely be tempted to pile on new rebates to pump up sales again. "This probably foreshadows even more reckless behavior in the future," warns Merrill Lynch & Co. analyst Nicholas Lobaccaro.

So far, earnings haven't suffered in Detroit because carmakers cut costs fast enough in the first quarter to outpace



rising incentives. But discounts surged 24% in April and are still climbing, says Art Spinella, general manager of CNW Marketing/Research in Bandon, Ore. "How long can you afford to buy the market?" asks Michael Seergy, vice-president of Nissan Motor Corp. USA. "What are you going to tell shareholders when volume goes back down and incentives are still high?"

BEETLEMANIA. There are a few exceptions to the rebate rule. Some luxury cars and trucks sold briskly with few rebates. Volkswagen sales soared 59%, thanks to a flood of orders for the new Beetle. Lexus, propelled by RX 300 and LX 470 sport utility vehicles, gained 55%, while sales rose 75% at Mercedes-Benz on hot sales of the SLK roadster and ML320.

Carmakers who try to kick the rebate habit often go through nasty withdrawal. Take Nissan, where sales plummeted 26% in April. Nissan hopes to reverse its skid with a new advertising campaign, but it pledges not to return to wholesale rebates. "It only makes you worse off in the long term," says Seergy. That's a lesson other auto manufacturers still seem determined to learn the hard way.

By Kathleen Kerwin in Detroit

By Catherine Arnst

OF MICE, MEN, AND CANCER CURES

This is a cautionary tale about the confusion that can erupt when you mix a powerful newspaper, desperately ill cancer victims, hungry investors looking for the next blockbuster drug, and the word "cure."

Last November, Judah Folkman and Michael S. O'Reilly—doctors at Boston Children's Hospital—reported in the science journal *Nature* that they had discovered two human proteins, called angiostatin and endostatin, that eradicated all signs of cancer in mice. The proteins were isolated from the urine of mice that had been given human cancers. The *Nature* report generated a buzz in the oncology community because it described a treatment that appeared to short-circuit the method by which tumors grow and spread throughout the body.

Since then, EntreMed Inc., a tiny biotech company in Rockville, Md., has been quietly working on a manufacturing process that would create enough of the two proteins to conduct human trials, which they hope to start in a year or two. Many news outlets ran stories about Folkman and O'Reilly's work, including *Newsday*, CNN, the Associated Press, *Consumers Digest*, *BUSINESS WEEK*—and *The New York Times*. The research has also been discussed at a handful of cancer meetings, the most recent a New York Academy of Sciences sym-



posium from \$12.06 a share to a mind-boggling \$85 before closing at \$51.81 on May 4. EntreMed's phones were ringing off the hook, and cancer centers around the country were inundated with calls from patients desperate for the new "life-saving" drugs.

The only problem: There are no drugs. There may never be any drugs. So far, these proteins have only cured cancer in mice. And it's a long way from success with mice to a cure for humans, cautions Dr.

still difficult to hear over the public's clamor for the new miracle drug. "All of a sudden, you pick up the newspaper and see a Nobel laureate saying there's a cure for cancer on the front page," says Lehman Brothers Inc. analyst C. Anthony Butler. "That was the take-home message."

The message arrived when the public and Wall Street were exquisitely tuned to hints of the next wonder drug. Pfizer's stock has climbed 50%

since early this year on expectations of billion-dollar sales for Viagra. In April, the stocks of Zeneca Group PLC and Eli Lilly & Co. scored on news that their designer estrogen drugs, Tamoxifen and Evista, can prevent breast cancer.

But those drugs are already on the market, after numerous clinical trials. Angiostatin and endostatin, like so many promising lab discoveries before them, may never even reach human trials. "A lot of new investors don't have a very sophisticated understanding of the pitfalls involved in creating new drugs, especially cancer treatments," laments Volpe Brown Whelan analyst David M. Steinberg.

Reporters, analysts, and especially Nobel scientists must be far more careful about overhyping so-called cancer cures—particularly ones that are still more theory than reality. Granted, *The New York Times* published a story a day after its Sunday bombshell cautioning that it will be years, if ever, before the EntreMed treatments are commercially available. But that second-day hand-wringing is cold comfort for the millions of cancer victims whose hopes were raised by a "miracle cure" that might never materialize.

Associate Editor Arnst covers medicine for *BUSINESS WEEK*.

HOPE AND HYPE It's a long way from the lab to the market—but try telling that to cancer victims or investors hungry for hot new drugs

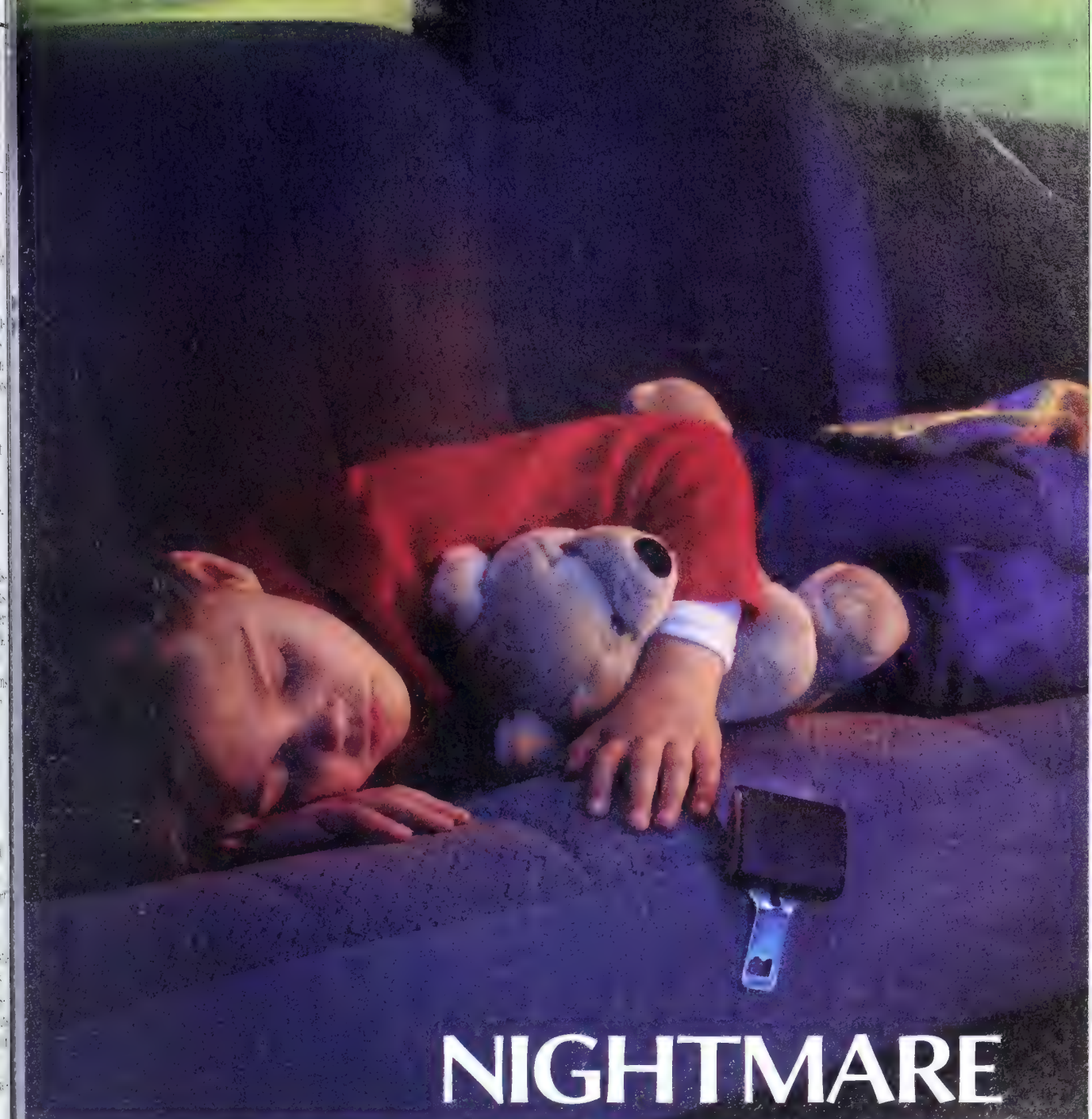
posium on Apr. 28, to which the press was invited.

On the following Sunday, May 3, *The New York Times* revisited Folkman's discovery. But this time, they gave it the star treatment. The newspaper published a front-page story on angiostatin and endostatin, quoting Nobel laureate James D. Watson, a co-discoverer of DNA, saying that "Judah [Folkman] is going to cure cancer in two years."

The story, coming after a week of stock-market frenzy over Pfizer Inc.'s impotence blockbuster Viagra, caused a worldwide sensation. On Monday morning, EntreMed's stock shot up

James M. Pluda, senior clinical investigator of the National Cancer Institute's investigational drug branch: "The field of oncology is littered with the bodies of agents that were the next magic bullet."

"TAKE-HOME MESSAGE." To their credit, EntreMed and Folkman started putting that same message out within a day of the *Times* story, trying hard to end speculation that they had discovered a cancer cure. "We're very cautious about that four-letter word," EntreMed Chief Executive Officer John W. Holaday said over and over, and the stock dropped to 31¢ by May 6. But his cautionary message was

A close-up, dimly lit photograph of a young child sleeping peacefully in a car seat. The child is wearing a red shirt and has a white wristband on their left arm. A light-colored stuffed animal is tucked under their arm. The car seat's buckle is visible in the foreground. The overall mood is calm and safe, contrasting with the 'NIGHTMARE' text below.

NIGHTMARE

Keep one
from happening.

According to the National Safety Council, crashes kill more than a thousand children every year who ride completely unbuckled. Millions more are at risk because their safety restraints are used incorrectly. Please make sure that children 12 years and younger are secured snugly and properly *in the back*, in restraints that are appropriate for age and size. Learn more about how to keep your child safe (and reasonably entertained) in the "Kids in the Car" book, free from Shell. You can pick up a copy at your nearest Shell station.

Or you can visit us at www.countonshell.com or call 1 800-376-0200.



Count on Shell



WASHINGTON

CORPORATE AMERICA VS. THE RELIGIOUS RIGHT?

As volcanic Newt delights social conservatives, business frets

Say adieu to the Newt. The House Speaker, trim, tamed, and faintly bipartisan of late, has returned to his more familiar, decidedly more belligerent guise as the Georgia Slasher.

In recent weeks, Gingrich has blasted a Senate GOP tobacco bill as too liberal, threatened to sink business-backed legislation to help shore up the International Monetary Fund, and directed lieutenants to take on the Clinton Administration. Once again, there are the daily fiery sermons from Gingrich on the President's character or lack thereof. The rhetoric harks back to the 1995-96 "shut-the-government" legislative session—and tactics that backfired in the 1996 campaign.

So as the nation approaches the 1998 elections, the obvious question is: Why bring back the old Newt? The answer: thunder on the right. Furious that the GOP leadership has failed to push for their social and moral concerns, religious conservatives and right-wingers have turned up the heat on Gingrich & Co. With the strong economy lulling many Republicans into complacency about a Democratic White House, Republican leaders feel they have to energize the party's conservatives—or face low turnout in November, when House control hangs in the balance.

The strategy could backfire. By courting hardliners, GOP leaders have turned the legislative process into a game of political hostage-taking. Case in point: the IMF fight. Religious activists are insisting that anti-abortion provisions be included in the \$18 billion package. Gingrich says he's willing to see the measure die unless the White House cooperates with GOP scandal investigations. The demands of social conservatives are also tying up bipartisan trade liberalization, a new budget, tax cuts, and education reform.



FIRE-BREATHER Once again, Gingrich is trying to charge up the Republicans' conservative base for fear of a low turnout in November

House Republican leaders think their solidify-the-base strategy will enable them to expand their 11-seat cushion in the House. Besides, party pros reckon, if they fight for conservative principles now, they can always avoid the gridlock rap by cutting a few last-minute deals with Clinton come fall.

But some strategists fear the return to head-banging could turn off moderate Republicans and independents. "The charge that we're a do-nothing Congress, linked with our focus on sex and scandal, could leave voters soured on Republicans," frets a GOP pollster. Certainly, Gingrich has been hurt: In a late-April Har-

ris poll, his already dismal negative rating rose to 62%, from 56% in February.

Business lobbyists are also worried about the Republicans' renewed embrace of the Religious Right. Every day Congress spends debating social issues, business lobbyists complain, it loses a day working on Corporate America's priorities, including trade expansion, reform of the legal system, and strengthening ties to China. Religious fundamentalists say these priorities elevate profits over moral concerns, such as Beijing's human-rights record.

Business bristles at the charges. Some Christian activists "would like a holy war with business," fumes Bruce Josten, senior vice-president of the U.S. Chamber of Commerce.

DOBSON FACTOR. Dems, naturally, are delighted. "Newt is a volcano spewing lava," says Representative Martin Frost (D-Tex.), chairman of the Democratic Congressional Campaign Committee. "I want him on TV every day."

Meanwhile, the rest of the party leadership shows signs of moving right, too. House Majority Leader Richard Armey (R-Tex.) dined on May 4 with James L. Dobson, the powerful leader of the fundamentalist group Focus on the Family. Dobson has threatened to bolt the GOP unless party leaders shape up. Also on May 8, House Majority Whip Tom DeLay (R-Tex.) planned to hold a Capitol Hill summit with Dobson, Gary Bauer of the Family Research Council, and Christian Coalition Executive Director Ralph Tate. "We want them to know that their agenda is our agenda," says a senior Republican aide.

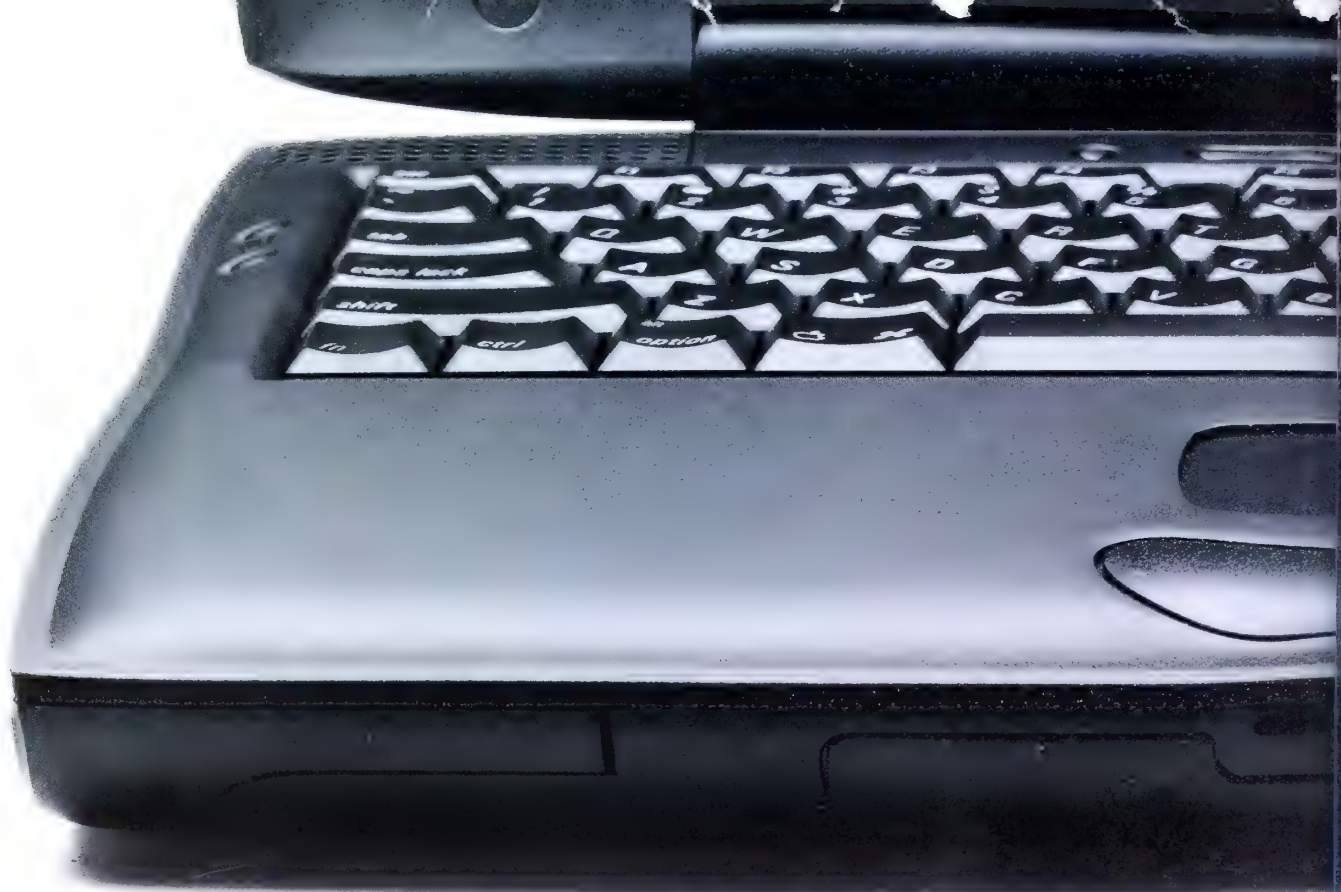
Already, social conservatives say they have assurances that the GOP will focus votes on cherished priorities: a ban on partial-birth abortion, repeal of the "marriage penalty" tax, a constitutional amendment allowing prayer in schools, and tax breaks for families of private and religious-school students.

That should satisfy the right. No GOP leaders just have to figure out how to keep other Republicans happy, too. Otherwise, the only cheerful party to come fall may be the Democrats.

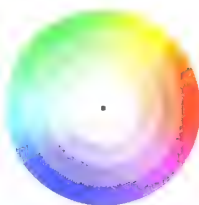
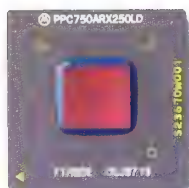
By Richard S. Dunham
in Washington



We rewrote the book.



It eats Pentium n



See how your favorite colors (and a few million others) look on one of the brightest screens in a notebook—in full 1024-by-768 glory.

The PowerPC 601 chip is a certifiable speed demon. In the lab, TPCW mark integer tests (see accompanying scores below) up to three times faster than the Pentium chips used in PC notebooks. In fact, even the most affordable PowerBook 601 beats the point off the fastest PC-compatible notebook.

PowerBook G3/292

9.8

PowerBook G3/250

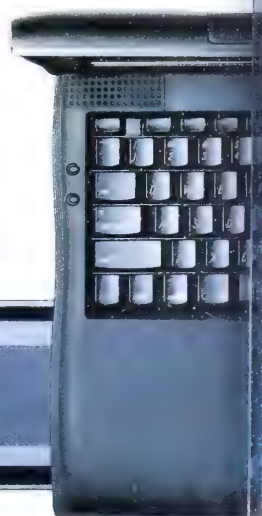
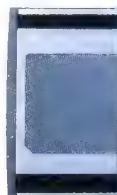
8.4

PowerBook G3/233

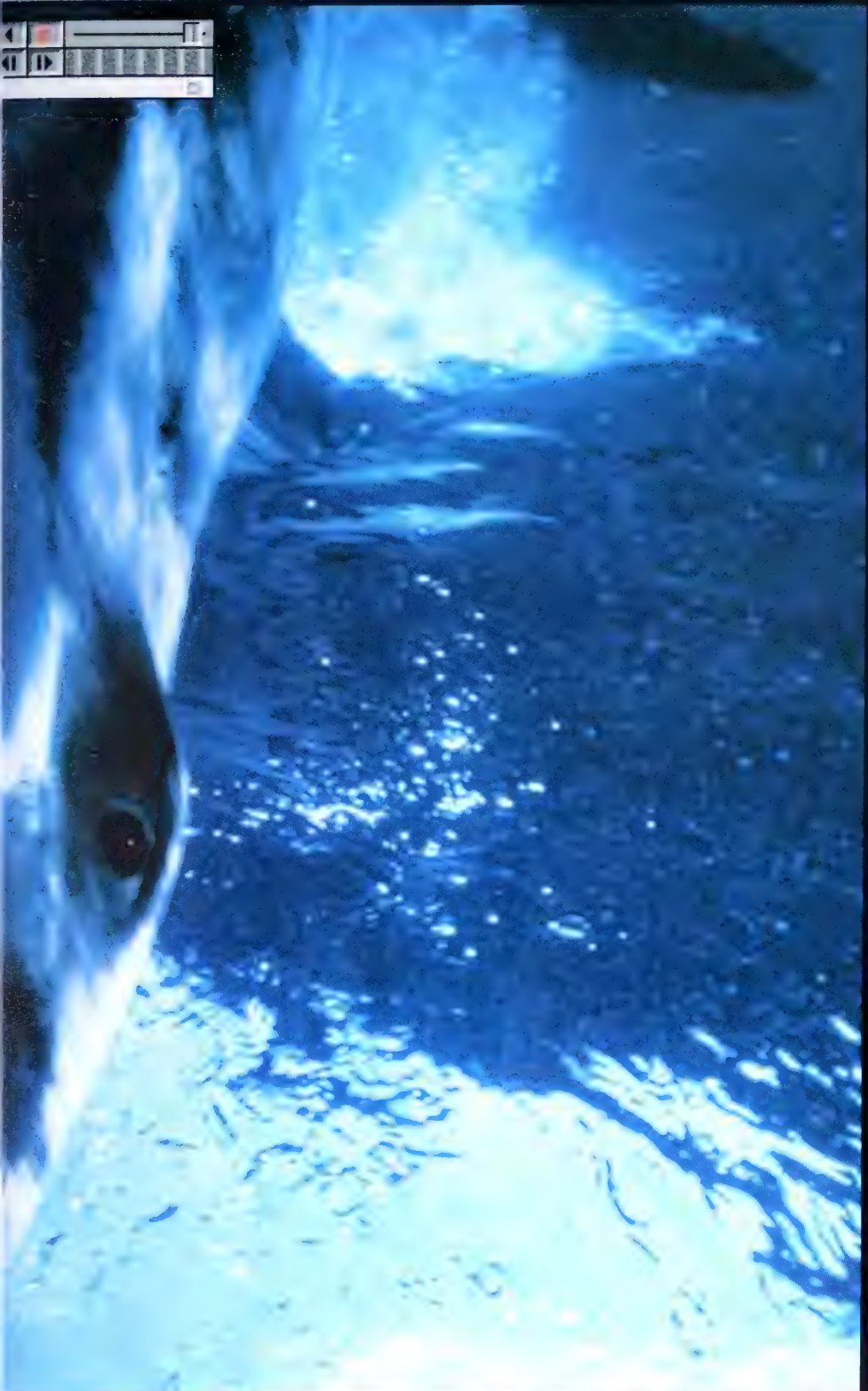
7.3

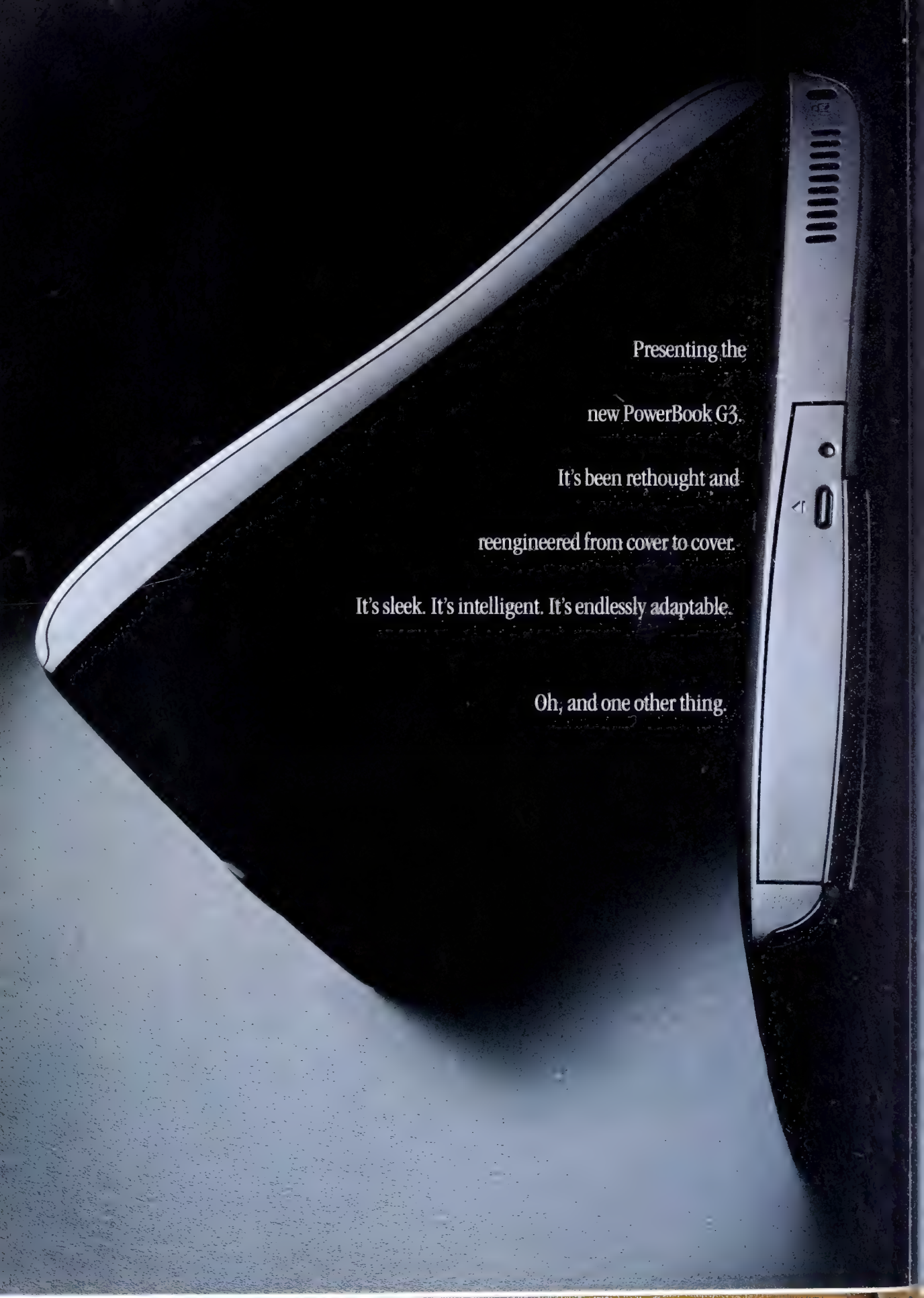
2.9

You'll need a better excuse than "my battery ran out." Add an optional second lithium-ion battery and you'll get up to seven hours of power under normal use. And just so you know where you stand juice-wise, there's a nifty LED indicator on each battery pack.



\$2,299. *the price*
and 20x CD-ROM





Presenting the

new PowerBook G3.

It's been rethought and

reengineered from cover to cover.

It's sleek. It's intelligent. It's endlessly adaptable.

Oh, and one other thing.

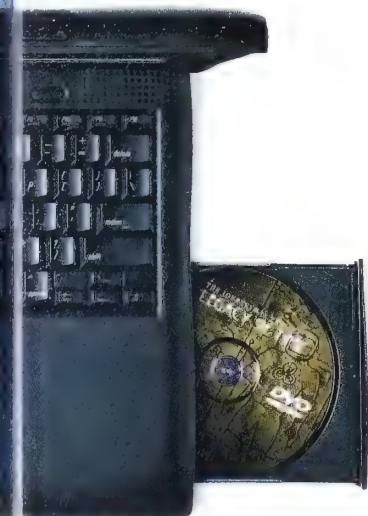


▶ the 14.1-inch diagonal measures 11.1 inches; multi-touch screen should have actual size, not less — gives you more usable space than you'd get on a 15-inch desktop monitor ▶





PowerBooks for lunch.



ing price for a new
expansion bays
battery is included.

*Versatility, thy name is
PowerBook. Every model
comes with two built-in
expansion bays (which
also double as battery
bays), as well as two very
bandy PC Card slots.*



*Exploit the media. You can "hot swap" at
whim – with your choice of floppy and
CD-ROM drives, or the optional DVD-ROM
and third-party Zip drives.*



*Our keyboard engineers (yes,
we have keyboard engineers)
insisted on precision scissor-
action keys. It's a long story,
but trust us – they feel great.*



*The PowerBook G3 offers a
full array of networking and
communications ports, as
well as 24-bit video-out.
However you choose to link
up to the world, via Ethernet
or optional K56flex modem,
it's a case of ready, aim, plug.
No adapters needed.*



www.apple.com

The new PowerBook G3 is here. Far faster than the fastest Pentium notebook.¹ Complete with two expansion bays. Battery life up to seven hours.² Built-in Ethernet. Easy expandability. And breakthrough prices on every screen size, including the big 14.1-inch model. Visit The Apple Store™ at www.apple.com. (If you prefer, call 1-800-795-1000 or visit an authorized Apple reseller.) Then pick one of the pre-configured setups below—or continue to mix and match features until you have a PowerBook with your name written all over it.

	Good	Better	Best
12.1-inch STN SVGA Screen	233MHz G3 processor 32MB memory 2MB SGRAM 2GB hard disk 20x CD-ROM	233MHz G3 processor 32MB memory 2MB SGRAM 2GB hard disk 20x CD-ROM, floppy drive K56flex modem	250MHz G3 processor 1MB backside cache 32MB memory 2MB SGRAM 2GB hard disk 20x CD-ROM, floppy drive K56flex modem
Starting at \$2,999*			
13.3-inch TFT XGA Screen	233MHz G3 processor 32MB memory 4MB SGRAM 2GB hard disk 20x CD-ROM, floppy drive S-Video out	250MHz G3 processor 1MB backside cache 32MB memory 4MB SGRAM 4GB hard disk 20x CD-ROM, floppy drive K56flex modem S-Video out	292MHz G3 processor 1MB backside cache 64MB memory 4MB SGRAM 4GB hard disk 20x CD-ROM, floppy drive K56flex modem S-Video out
Starting at \$2,999*			
14.1-inch TFT XGA Screen	233MHz G3 processor 32MB memory 4MB SGRAM 2GB hard disk 20x CD-ROM, floppy drive S-Video out	250MHz G3 processor 1MB backside cache 32MB memory 4MB SGRAM 4GB hard disk 20x CD-ROM, floppy drive K56flex modem S-Video out	292MHz G3 processor 1MB backside cache 64MB memory 4MB SGRAM 8GB hard disk 20x CD-ROM, floppy drive K56flex modem S-Video out
Starting at \$3,499*			



Think different.

© 1998 Apple Computer, Inc. All rights reserved. Apple, the Apple logo and PowerBook are registered trademarks and The Apple Store and Think different are trademarks of Apple Computer, Inc. PowerPC is a trademark of IBM Corp., used under license herefrom. Microsoft Office '98, Journeyman Project 3 and Zip disks not included. *Estimated retail price, actual prices set by resellers and may vary; tax, shipping and handling not included. Some configurations only available at The Apple Store. ¹In BYTEmark integer index scores. ²With optional second battery. L027991

EDITED BY PAT WECHSLER

A NEW BEHEMOTH, GOOD ON THE FLOOR

ARGE AND PURGE? DIGITAL equipment shareholders will vote June 11 on a \$8.5 billion combination with Compaq Computer. If approved, the two will form a \$38 billion behemoth selling everything from handheld PCs to technical services. What the new company won't offer is job security. After the merger, analysts say, Compaq is expected to eliminate 15,000 of its 54,000 employees. The mass layoff will mean a \$5 billion to \$2 billion restructuring charge. Meanwhile, Compaq could be making additional cuts. It has already trimmed 1,000 jobs through attrition, but insiders expect cutbacks at Com-

paq and its Tandem Computers subsidiary to eliminate a further 2,000 jobs.

ALLSTATE SUFFERS A SEISMIC FED SEARCH

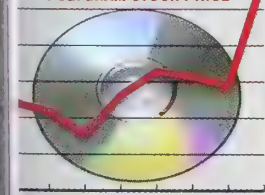
IT HAS BEEN MORE THAN four years since the Northridge earthquake rocked Southern California. But Allstate Insurance, which paid out more than \$1.7 billion in claims from the disaster, is bracing for another tremor. In late April, federal agents raided four Allstate offices, including headquarters in Northbrook, Ill., and carted away documents. The Feds and the California Department of Insurance are investigating whether Allstate doctored engineering reports to reduce payouts on property claims from the quake. Allstate general counsel Robert Pike denies the allegations.

CLOSING BELL

THE UPBEAT

o British music makers are hoping the takeover charts such prospective buyers as Gram, Viacom, and Disney. Philips Electronics' May announcement that it would consider selling its 5% stake in PolyGram, the world's largest music company, sent the market into a frenzy. Just one week earlier, the group, most recently known for launching the Spice Girls, had confirmed it was in talks with a prospective buyer. PolyGram's stock jumped 5% on the news, to 49% on May 6.

POLYGRAM STOCK PRICE



PR. 27, '98
DOLLARS
MAY 6
DATA: BLOOMBERG FINANCIAL MARKETS

U S WEST TARGETS LONG DISTANCE

U S WEST MAY HAVE FOUND A way to jump ahead of Bell Atlantic and others waiting for regulatory approval to get into long distance. On May 8 the company was expected to ink a deal to market 10¢-a-minute long-distance services from Qwest Communications, which is building a nationwide fiber-optic network. So far, Baby Bells have not been allowed to offer long-distance service in their regions, but U S West believes the deal will pass muster. The reason: The company won't book any long-distance revenues and will only market the Qwest service through its salespeople.

IBM: REMEMBER THE MAINFRAME!

IBM IS GETTING SERIOUS about protecting what's left

HEADLINER: IVAN SEIDENBERG

BELL ATLANTIC RINGS IN THE NEW

On June 1, Ivan Seidenberg is taking the reins as CEO of Bell Atlantic, 2½ months earlier than planned. Seidenberg, former head of Nynex, had been slated to take over from Raymond Smith on Aug. 14, a year after Nynex and Bell Atlantic completed their merger.

What gives? The move follows speculation inside the company that Seidenberg might not get the top job—that it might go to Lawrence Babbio or James Cullen, both Bell Atlantic veterans. One source inside the company described the atmosphere as “an armed camp,” with former Nynex

and Bell employees squaring off against each other. The promotion is expected to calm tensions.

Seidenberg has also had a big win recently: He positioned Bell Atlantic as the likely first Baby Bell let into long distance in its region. After months of hardball

with New York regulators, the Bell is expected to ask fed regulators for approval in early fall.

Smith, who will remain as chairman until the end of the year, called the promotion “a vote of confidence for Ivan Seidenberg and his team.”

By Peter Elstrom



of its mainframe franchise. On May 7, Big Blue was set to unveil a new fleet of mainframes that have twice the horsepower of existing models. IBM execs hope that will better match rival Hitachi Data Systems, which has been snatching customers because it has more powerful machines. IBM is also addressing another problem area: software that customers feel is overpriced. IBM is cutting prices 10% for some software it now offers on a pay-for-what-you-use basis. The company says that it plans to price more of its mainframe packs that way.

MICKEY D GETS A NEW CHIEF

MCDONALD'S ANNOUNCED ON Apr. 30 that 16-year veteran Jack Greenberg, 55, will become only the fourth CEO in its history, replacing

Michael Quinlan on Aug. 1. Under Quinlan's watch, McDonald's became one of the most successful global companies, but it has stumbled recently, building too many U.S. stores and failing to come up with successful new products. As head of the domestic division since July, Greenberg has brought in a handful of outsiders, sped up plans for an expensive new cooking system, and spent more time listening to franchisees.

ET CETERA ...

- In a surprise move, Randall Tobias will retire by yearend as CEO of Eli Lilly.
- Auto-parts maker Dana Corp. is the likely winner in a takeover battle for Echlin.
- Boeing wins a \$1.4 billion deal to build and launch 17 satellites.
- On May 6, Apple unveiled a new line of superfast laptops and a \$1,300 consumer PC.

HOW TO MAKE THE NETWORK YOU ALREADY HAVE DELIVER THE BANDWIDTH YOU DIDN'T EVEN KNOW YOU HAD.

INTRODUCING NETWORKING THAT MAKES BUSINESS SENSE.

Staying competitive shouldn't mean building a whole new network. You don't have time for downtime or the millions in lost revenue that comes with network redesign. That kind of business interruption just doesn't make sense. Cabletron has smart solutions that give you the extra bandwidth you need right now, with the network you already have. Solutions that deliver powerful leading-edge business applications. We think that makes a lot of sense. Take our versatile SmartSwitch Router. It actually drives applications through the heart of your network one hundred times faster than traditional routers at a

tenth of the cost, with all the security you depend on. That's incredibly smart. Then there's SPECTRUM® Enterprise Management software. Not only does it understand your network, it understands your applications, so you get the most out of them. Now that's sensible. And all of our smart solutions are backed by our world-class, worldwide service and support team. So contact your authorized reseller or call Cabletron at 1-800-438-3351. We'll show you how to get more bandwidth than you ever thought possible. And that makes good sense. Good business sense.

**SPECTRUM® Enterprise
Management Software**

SmartSwitch Router



www.cabletron.com

EDITED BY OWEN ULLMANN

U.S.-RUSSIAN RELATIONS ARE HEADED FOR SIBERIA

Russia is already seeing red over the U.S. Senate vote to expand NATO, and a move afoot could get it even more steamed. Lawmakers are poised to approve a seemingly no-proof bill this month that would slap economic sanctions on renegade Russian companies that sell advanced missile technology to Iran.

The double hit against Russia underscores the sour state of affairs developing between Washington and Moscow. Capitol Hill hard-liners are demanding Russian behavior modification after years of U.S. aid. And President Clinton is focused on mending ties with China, which offers greater potential as a business partner. That has left Moscow feeling bruised and neglected. Passage of the Iran Missile Proliferation Sanctions Act "can seriously damage Russo-American relations," warns Yevgeny Kozhokin, an adviser to Russian President Boris N. Yeltsin.

More rebuffs are coming. Washington sources say the White House may announce that Russian energy company Gazprom and France's Total have violated the 1996 Iran-Libya Sanctions Act by joining a \$2 billion energy venture in Iran. Although the Administration is expected to waive objections on national security grounds, the slap will still rankle Russians. Moscow is also a prime target of proposed legislation censure nations that tolerate religious persecution.

What really makes Russia mad is that the U.S. is cozying up to China, though it, too, has a religious-rights problem and is suspected of supplying Iran with missile and nuclear technology. Clinton will pay a state visit to Beijing in late June.

The Administration is in intense talks over terms for Russia's entry to the World Trade Organization. Moscow hasn't done much to help mend fences, either. Russia plans to deliver S-300 surface-to-air missiles to the Greek Cypriot government in late summer. That won't make

it any easier for the U.S. to mediate a 24-year-old dispute between ethnic Greeks and Turks on the powder-keg island. And Russia's parliament has yet to approve the START II nuclear-missile-control treaty because of lingering concerns that the U.S. may go ahead with development of a limited Star Wars defense. That, in turn, has halted U.S. Senate plans to ratify other nuclear accords with Russia.

Senate passage of the sanctions bill, which sailed through the House last fall, could do the most immediate harm. Joint space-agency projects—like the U.S.-Russian space station—might be hurt if a Russian subcontractor is named as a source of Iranian

missile technology: The Central Aero-hydrodynamic Institute, which has been accused of supplying Iran, has worked on past NASA projects.

The chill in relations could hit U.S. aerospace companies, too. Boeing Co., a joint-venture partner with Russia's RSC Energia, is building Sea Launch, an effort to lob satellites from a floating ocean platform. Lockheed Martin Corp. also has a satellite-launch venture with Energia, and another Russian company is building engines for Lockheed's Atlas

rockets. Lockheed says its partners are clean. But if Washington isn't satisfied that the Kremlin is cracking down on sales to Iran, it may scotch plans to lift restrictions on the number of American satellites—now limited to 18 a year—that can be launched on Russian rockets.

On May 5, Yeltsin ordered tighter government controls on military-technology exports. And he and Clinton will try to break the ice in Birmingham, England, on the eve of the May 15-17 Group of Eight economic summit. But an unconvinced Congress is likely to keep poking Moscow. Relations with Russia will stay rocky this election year—and maybe a lot longer.

By Paul Magnusson and Stan Crock, with Carol Matlack in Moscow



BILL AND BORIS: *Fences to mend*

CAPITAL WRAPUP

SILICON-SAVVY SENATE

Silicon Valley's newfound interest in Washington politics may be paying dividends. May 11-15 has been unofficially dubbed "Tech Week" in the Senate, and Majority Leader Trent Lott (R-Miss.) hopes to pass several technology-friendly bills. Atop the list: closing a loophole in a 1995 securities litigation reform law that encourages investors to sue companies in state courts over crashing stock prices. The law—passed under pressure from Silicon Valley—already restricts such suits in federal

court. President Clinton, whose veto of the original bill was overridden by Congress, backs the change.

Another measure with bipartisan support would increase penalties for telecom companies that engage in "slamming," changing a customer's long-distance phone carrier without permission. Other possible "Tech Week" proposals: requiring schools and libraries with Internet access to install smut-prevention software; instituting a moratorium on Internet taxation; and loosening immigration rules for skilled high-tech workers.

CONVENTIONAL POLITICS

► It looks as though the Republicans may be playing electoral politics with their choice of the city that will host the party's national convention in 2000. Six of the nine finalists are in states that the GOP lost in the '96 Presidential election: Chicago, Los Angeles, Minneapolis, New Orleans, New York, and Philadelphia. Republican sources on Capitol Hill say two favorites—Chicago and New Orleans—are in swing states key to the GOP's bid to capture the White House.



SOUTH KOREA

PSST! WANT A NICE PIECE OF A *CHAEBOL*?

The giants are unloading assets to raise cash in a hurry

Their global expansion seemed unstoppable. At home, South Korea's giant conglomerates, or *chaebol*, became exporters feared by rivals the world over. Overseas, they pushed through Central Asia into Europe, the U.S., Latin America, Australia, even Africa. They spent billions on new plants to crank out semiconductors, VCRs, and cars. Then the crisis hit. Korean companies, burdened with \$600 billion in debt, got slammed as interest rates jumped to 20% and the value of the currency tumbled.

Now, the biggest *chaebol*—Hyundai, Samsung, LG, and Daewoo—are being forced to scale back their empires. In recent dramatic declarations, the *chaebol* say they will focus on core businesses and sell off billions in assets to raise cash. Samsung, for example, said on

May 6 it would seek \$5 billion by offering assets, sideline businesses, and equity for sale to foreigners. It may sell out its stakes in two joint ventures to its partners in those ventures, General Electric Co. and Hewlett-Packard Co. Samsung hopes to raise another \$8 billion from sales of shares and assets to Koreans and halve its core business units from 10 to 5.

If the *chaebol* follow through on these plans, then the restructuring of Korea Inc. may finally be under way. What is clear is that the *chaebol* are beating a retreat from their overseas expansions. They are unloading plants

worldwide while putting many of their more ambitious investment plans on hold. Daewoo Group Chairman Kim Woo Chong is one of Korea's most headstrong expansionists and leader of the business lobby group the Federation of Korean Industries, so the country's top *chaebol* are talking to foreign investors about as many as 200 debt talks that began in February and March should be concluded by next month. "Major agreements will be shaping up from Japan," declares Kim. **LOGIC LAPSE.** Daewoo is leveraged to the hilt from its quest to widen its automotive business in developed countries. It spent a total of \$1.3 billion

overseas for its auto businesses alone. Now, it's offering up to 50% ownership in factories in Eastern Europe and the former Soviet Union to General Motors Corp. In addition, Daewoo, which has assumed \$1.1 billion in new debt to absorb Ssangyong Motor Co. in January, has agreed to sell half of a \$1.3 billion power plant in India to ABB Asea Brown Boveri Ltd.

There's movement in the chipmaking industry as well. At Hyundai Group, the electronics unit has sold off its Colorado semiconductor subsidiary, Silicon Bios Logic Inc., to Silicon Valley Adaptec Inc. for \$775 million and an assumption of \$100 million in debt. The proceeds from the sale of the maker of specialty chips will help finance Hyundai Electronics Industries Co.'s new \$1-billion memory chip plant in Oregon. The sale is a blow to company analysts, says Wang Yunjong, research analyst at the Korea Institute for International Economic Policy, a think tank. "Symbiosis represented the company's

Few overseas investments have paid off for the *chaebol*, so they can't sell them for anywhere near what they borrowed to build them.

ive to the more profitable logic chip business." Hyundai says it will develop capacity in logic chips at home.

Big changes are coming at Samsung Corp.'s flagship, Samsung Electronics. It sold a 10% stake in its chip plant Texas to Intel Corp. last year for an undisclosed sum. Now, it's negotiating to sell Intel an even bigger stake. Samsung has halted a planned \$500 million expansion of the Texas plants, as well as construction of a \$600 million plant in Newcastle, Britain, for making fax machines and personal computers. In telecommunications, Daewoo has abandoned a \$1 billion telephone and satellite project in Kazakhstan and sold a 40% stake in the country's telecom monopoly, zakhtelekom, for about \$150 million. The sales are keeping Korean companies from moving up the manufacturing chain. Synthetic-fiber maker Kohap 1, Korea's 20th-largest *chaebol*, took over German chemical giant BASF's global magnetic tape business in January, 1997. Kohap renamed it EMTEC Magnet and turned it into a moneymaker. Now, Kohap needs cash and is reluctantly selling a major stake in the tape maker, as well as synthetic-fiber plants in Mexico, Indonesia, and China. "If we could find a way to keep EMTEC Magics intact and still cope with the current liquidity crunch, of course we would do that," says Chung Young Taik, Kohap's director for planning. But the company needs the money.

EMMA. One factor that could block significant sales is the *chaebol's* low success rate with overseas ventures. As a result, they can't sell the plants for anywhere near what they borrowed to build them. "They are in a dilemma," says Jung In Soo, economics professor at Kyungju Women's University in Kyungju. Samsung, for example, spent \$550 million to take full control of money-losing AST Research Inc. in Irvine, Calif., injected more than \$200 million in a bid to turn the computer maker around. It could never hope to recover its losses if it sold out. Analysts put Samsung's 1997 losses at around \$300 million. The worst-off *chaebol* may have to sell off whatever they can get. Ssangyong, pushed close to insolvency at the end of last year, sold California subsidiary Riverside Cement Co. to Pacific Industries Inc. for \$120 million. Ssangyong got rid of two Marriott Residence Inns in Sacramento and San Diego for \$5 million. Ssangyong also has unloaded its Korean paper operation to Sejong & Gamble Co. for \$85 million. Divestitures don't bode well for *chaebol's* goal of becoming true global companies. But glorious expansion is the plan now. Survival is.

By Moon Ihwan in Seoul

DOING A BANG-UP BUSINESS

Korean companies that didn't overexpand are thriving

Surprise! There's some good news in South Korea. A handful of mid-size companies and second-tier conglomerates have managed to survive the fallout of the financial crisis and are doing quite well this year. In fact, they are outshining Korea's diversified, debt-ridden industrial giants, or *chaebol*, and are providing some good lessons to the conglomerates as they go through a tough era of restructuring and recovery.

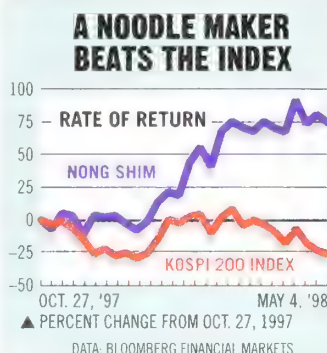
While the *chaebol* were all hit hard by the crisis, the companies that kept borrowing to a minimum, eschewed overexpansion, kept to conservative management styles, and concentrated on core profitable businesses are racking up gains. Examples include instant noodle and snack maker Nong Shim Co. and Tae Kwang Industrial, the world's second-largest spandex manufacturer after DuPont. They also include circuitboard maker Dae Duk Electronics and Sindoricoh, which specializes in fax and copying machines.

Take Nong Shim. Back in the mid-1990s, the company's head of strategy, Yoo Jong Suk, was criticized for lacking imagination. He refused to expand into new areas, concentrating instead on food. While his friends at the *chaebol* grabbed headlines with their costly, diversified projects, Yoo had no such ventures to brag about. His *chaebol* friends questioned his business acumen—until last year.

Now, it's the 48-year-old Yoo who can do the boasting. Nong Shim has interest income that exceeds interest payments by \$3.2 million. In the fiscal year ending in June, analysts expect the company's net profits to jump at least 50%, from \$18.1 million a year earlier. By staying focused, Nong Shim

has snared a 63% share of the local market for instant noodles, known as ramyon. "All we want is to be globally recognized as a ramyon maker," says Yoo. Investors are taking notice. Nong Shim's shares have risen sharply as the Korean stock exchange's Kospi 200 Index has declined (chart).

Sindoricoh is looking good, too. "We just did not follow in the footsteps of the *chaebol*," explains manager Park Ock Yong. Sindoricoh is 17.5% owned by Japan's Ricoh Co., which takes most of the Korean company's exports. It has \$74 million in cash holdings against debts of \$28 million and posted a \$33 million net profit last year, up 44% from 1996. "For us, the current business en-



vironment is not so hostile," says Park.

Other companies profiting now are ones that restructured before the crisis. Korea's leading cosmetics maker, Pacific Corp., was forced to slim down during a surge in demand for imported cosmetics in the mid-1990s, which also prompted cutthroat price competition by smaller local players. Squeezed, Pacific launched a four-year overhaul. It shed unprofitable units, cut its workforce by a third, and abandoned unprofitable products. "Pacific is now well-positioned to capitalize on the weak won that has now priced imported cosmetics out of the market," says Lee Sang Koo, an analyst at Hyundai Securities Co. Pacific's net profit is forecast to soar to \$21 million in 1998, from \$8 million last year.

In this era of restructuring under the heavy burden of debt, such conservatism is yet another lesson that Korea Inc. would do well to learn.

By Moon Ihwan in Seoul



"TO THE OUTSIDE WORLD THIS IS A PIZZA COMPANY. TO ME, IT'S AN ENTERPRISE."

• NET PROFILES

• MATTHEW MAGUIRE

• 038

• DIRECTOR,
INFORMATION TECHNOLOGY

• NETWARE
NOVELL DIRECTORY SERVICES
MANAGEWISE
GROUPWISE

• DOMINO'S PIZZA



WORK OF MULTIPLE PLATFORMS, PROTOCOLS AND USERS. EITHER WAY WE DELIVER."

Matt Maguire knows all about delivery. His company delivered over 226 million pizzas last year. And with 4,500 stores across the country, Matt's network had to deliver the same superior performance and reliability that made Domino's® the world's leader in pizza delivery.

To do that, Matt chose Novell® networking solutions. NetWare®, software as the core server operating system. NDS™ technology to manage his other operating systems, including SCO® UNIX® and Windows NT®. ManageWise® to support all 1,200 remote devices in his network from a single location. And GroupWise® messaging services to leverage the ubiquity of the Internet to give employees worldwide access to their email.

All in a seamlessly integrated system that could adapt to the changing needs of the business and scale up as it grew.

The result? On-site technician calls were reduced to twice a year, administration tasks were performed in minutes instead of hours, money was saved, productivity was increased, employees stayed in touch, and Matt looked like a genius.

...that's delivering. www.novell.com

Novell

SOLUTIONS

INDIA

WHY NEW DELHI IS PICKING ON PEPSI

Foreign marketers may get the unwelcome mat

When a Hindu nationalist party formed India's government in March, there was concern it might be hostile to foreign investors. After all, the Bharatiya Janata Party (BJP) rose to power chanting slogans of self-reliance. Since then, the BJP has made a point of welcoming foreign energy and infrastructure companies. But what about the consumer-products manufacturers that have invested millions of dollars in India?

They just got their answer. In mid-April, the Indian government fined PepsiCo Inc. \$750,000 for an infraction it says occurred way back in 1992. While it's a niggling amount of money, the fine is the first indication that India won't be welcoming all foreign investors equally. The government claims Pepsi Foods Ltd. failed to meet an obligation to export tomato paste, soft drink concentrates,

and potato chips from its Indian plants, and instead substituted rice and seafood. Pepsi, which has \$400 million invested in India, is furious. It maintains the agreement is to export any foods it processed, not specific ones.

Making life difficult for foreigners is an easy way for the BJP to score political points. The party's core of ascetic, middle-class Hindus is uncomfortable with India's growing consumerism and the proliferation of multinationals. Now the BJP "can say, 'Look, we did take a line,'" says Arun Kumar of Jawaharlal Nehru University.

The fine is likely to set a precedent. Many companies violate export obliga-



TRAFFIC COP: The BJP says Pepsi broke export promises

tions, finding them only or untenable, a past government looked the other way. Seagram agreed to port "liquor produce when it set up in 1992 but instead has been porting T-shirts. That because Seagram exports the alcohol it bottles in India, pay 270% duty. The company cannot recoup cost by reexporting both liquor, says Seagram India CEO Akram Fahim.

Export Commissioner Anil Swarup insists politics don't play a role in the decision, but admits export monitoring was a low priority until a Parliamentary committee chaired by a BJP hard-liner criticized his office. BJP leaders know foreign investment is crucial. But with a key constituency to keep happy, the BJP has decided to draw a line between "desirable" investors and "unnecessary" ones.

By Amy Louise Kazdin in New Delhi

Home	Reload	Images	Open	Print	Find
http://www.electroflux.com					
What's New?	What's Cool?	Destinations	Net Search	People	Software



ELECTROFLUX INTRODUCES 30-YEAR CAR BATTERY.

With the latest advancements in cell technology, Electroflux has created the strongest, longest living car battery in automotive history

Big news can mean big opportunity. In the time it takes to jump-start your car, points can be lost. So Trade Now™. Go directly to Datek...the fastest and easiest way to trade on the web. Only \$9.99 for any trade*. And if it's not executed within 60 seconds, it's commission-free. Trust your trade to Datek. And stay in charge.

TRADE NOW

www.datek.com



* All trades up to 5,000 shares are only \$9.99. Your commission is waived if your marketable order is not executed within 60 seconds. Some restrictions to this offer apply. Please check our website for more details. Average execution time on marketable orders is less than 10 seconds (as of 1/10/98). Free news, charts and research provided by NewsAlert, BigCharts® and Thomson Investors Network. Trade Now is a servicemark of Datek Online. ©1998 Datek Securities Corp., Member NASD and SIPC.

DATEK ONLINE

Nothing Lasts Longer

The world's
best-selling UPSs
now start at \$99

Renewable
UPS System
**DESIGNED
TO LAST A
LIFETIME!**

• User-Resettable Circuit Breaker •
• User-Replaceable Batteries •

Vibrating Fault Indicator
automatically identifies building
problems

Safe outlets give you room to plug in
former blocks

Now the world's best-selling desktop
UPS units offer you even more value
for your power protection dollar! With
45% of all data loss and downtime
caused by bad power, your APC invest-
ment pays for itself the first time you use it.

**More power and guaranteed
in Class* Longest Runtime.**

Runtime will meet or exceed that of any
VA UPS for desktop applications, or
your money back!

Full protection for your whole system
protects your CPU, monitor, external
modem, laser printer, fax machine, and zip
drive, and provides telephone/network surge
protection.

Renewable UPS system

QuickSwap™ battery packs are the
fastest and easiest way to safely renew a
unit unlike "disposable" UPSs which don't
allow safe user replacement and mean the
end of your investment.

APC Back-UPS Pro®,
Back-UPS® and Back-UPS Office® will provide run-
time which meets or exceeds that of any same VA
UPS for desktop PC applications or your money back.



"Long Lasting" "Back-UPS Pro was
our favorite unit.... (it) won top
honors in our battery life tests"

Safe, even from lightning

APC multi-stage surge suppression clamps
down on lightning and offers a \$25,000 guar-
antee against damage to your equipment.
See policy for details.

APC packs the power and features desktop
users want, plus the peace of mind and
legendary reliability reflected by over
8,000,000 field-tested and proven units.

Back-UPS Pro: Smart Power Protection



PowerChute® plus power
management software lets
you configure UPS re-
sponse to over twenty
events. During an extend-
ed outage, WorkSafe™ can automatically save
data, close programs, and shut down your
computer, whether you're there or not.

Automatic Voltage Regulation (AVR) with
DoubleBoost™ and CellGuard™ intelligent bat-
tery management let you work through the
deepest prolonged brownouts without wasting
battery power, extend battery life, and speed
recharging.

APC Safety, Readiness and Reliability
Microprocessor-controlled automatic battery
self-test regularly checks status of the unit
and ensures battery readiness

QuickSwap™ user-replaceable battery
system lets you easily renew the UPS system
and avoid factory service delays

Push-button circuit breaker provides user-
resettable overload protection and eliminates
the need to replace a traditional fuse or even
the entire "disposable" UPS

Internet and network ready



"Editors' Pick: 'We wouldn't
be caught dead without an
uninterruptible power supply -
and neither should you.'"

**FREE! Catalog and UPS
Selection Guide**

Just fill out this computer card
for your FREE catalog and UPS selection
Guide. Better yet, order them today at:

<http://promo.apcc.com>

KEY CODE D3082

☐ **YES!** I'd like more information. Please send my
FREE catalog and UPS selection Guide.
☐ **NO,** I'm not interested at this time, but please
add me to your quarterly newsletter mailing list.

Name _____
Title _____ Company: _____
Address _____

City/Town _____
State: _____ Zip: _____ Country _____

Phone: _____
Brand of UPS used? _____
Brand of PCs used? _____
Brand of Servers used? _____



(888) 289-APCC x8158 • FAX: (401) 788-2797

Available at: **EGGHEAD**

BEST BUY

Fry's

Insight
800-859-5614

OfficeMax

PC Zone

COMPUSA

GLOBAL

*All Trademarks are the property of their owners. BK1B8EF - US

APC has won more awards for reliability
than all other UPS vendors combined.





MEXICO

CONSUMER SIZZLE COULD OVERCOOK THE ECONOMY

With buyers out in force again, policymakers start to worry

With the World Cup a month away, José Luis del Razo is shopping the soccer marathon in style. In the consumer electronics section at El Palacio de Hierro, an upscale Mexico City department store, del Razo, a dentist, is enticed by the 12-month, interest-free payment plan. And he has the money: "I feel a slight improvement" in the economy, he says, raising his voice above the chatter of shoppers. "It's small, it's slow, but it's there."

Overcoming ingrained skepticism, Mexicans are finally believing in recovery—and they're persuaded by gains that are not so small. For the first time since the December, 1994, peso crash, Mexicans are taking home real wage increases this year, averaging 4%. And they are making purchases they had put off since salaries fell some 25% in 1995. Spurred by generous credit offers, consumers such as del Razo are out in force buying new cars, televisions, and microwave ovens. Their buying pushed retail sales up almost 11% in January and February over the same months in 1997. In March, new-car sales jumped 86% year-to-year. Such con-

sumption is becoming Mexico's engine of growth: It's driving an expected 4.5% economic expansion in 1998 after last year's sizzling 7% gain, which was powered mainly by exports and investment.

That shift is stirring fears among policymakers that the economy may overheat. President Ernesto Zedillo Ponce de León must walk a fine line between reassuring financial markets that he will steer a prudent economic course and the political cost of reining in growth. The opposition is already decrying cutbacks in areas such as education and housing following Zedillo's \$2.85 billion budget cuts earlier this year to offset revenue losses from the oil price drop. Zedillo also risks rebellion within his own Institutional Revolutionary Party (PRI) candidates fear that moves to cool the economy would jeopardize their chances in 10 gubernatorial elections this year.

The most worrisome

HOT ITEM: Appliances are selling fa

omen is Mexico's widening current-account deficit, to an expected \$14 billion, \$15 billion in 1998, up from \$7.5 billion '97. The Bank of Mexico warned on April 29 that continuing deterioration in the current account, which includes trade in both goods and services, could force fiscal and monetary policy changes—a clear threat that authorities won't hesitate to cut spending and hike interest rates, if needed. In the first quarter, imports rose 27.2% overall, and consumer imports jumped 54.6%, while low oil prices kept export growth to just 12%.

"BRAKES ON." Policymakers recall that consumer frenzy preceded the peso crisis. Free-flowing credit financed a spending boom, and the 1994 current-account deficit swelled to \$29.4 billion. Four years later, shoppers are more cautious. "A lot of people don't want to risk credit," says Fernando Ripoll, general manager of a Mexico City Ford dealership. When they do, it's on manageable terms. Ripoll and other dealers, backed by Ford Motor Co.'s credit subsidiary, offer a zero-interest-payment plan for up to two years with a 35% downpayment.

Zedillo and the central bank have also learned from the 1994 debacle. With the 2000 elections nearing, Zedillo wants to make sure he won't end his six-year term amidst a financial upheaval—a regular occurrence in election years over the past two decades. While direct foreign investment should cover much of the current-account deficit, sooner or later "you have to put the brakes on," warns economist Francisco Núñez de la Peña with Grupo Financiero Bancomer.

But not just yet. Mexicans still expect almost 20% less than they did in 1994, and Zedillo knows he'll stir citizen wrath if after years of belt-tightening he takes away their chance to splurge a little. That's what Silvia Rodríguez, secretary, and her husband, Humberto Bernier, an accountant, are doing. In the

past three months they have bought a videocassette recorder and a TV set on Palacio de Hierro's 12-month plan. "There's more money now," says Rodríguez, though she knows it could change. This month she's buying a new compact-disk player.

SHOPPERS BUOY GROWTH



Earth Shakers."



"Sprint's international calling plan helps my team build our jingle business overseas."

-Julie Sizemore
Thompson Creative
Dallas, TX

Introducing

SPRINT'S SMALL BUSINESS

PERFORMANCE PLEDGE

We pledge to work with you to solve your business challenges using the right mix of products and proven tools from recognized experts to help you excel in critical areas such as:

Ensuring Customer Satisfaction
Increasing Your Sales
Improving Employee Effectiveness

With flexible international calling plans, Sprint helped Julie and her co-workers be more effective.

What's more, we provide a wide range of valuable business tools and advice to help you in:

- **Developing human resources**
- **Improving efficiency on the road**
- **Expanding your business internationally**

...and a whole lot more. Because Sprint not only delivers reliable business communications, but can actually help grow your business. So put our Small Business Performance Pledge behind you. Call today.

Add to that, *Fridays Free**, local toll** and toll-free and you too, can have a formula for success.

1-800-477-1406 www.sprint.com/pledge/



We help your business do more business™

*For \$50 monthly commitment level, minimum of \$50 required on days other than Fridays. Customers who do not meet the minimum requirement will be billed the difference to equal the minimum. Maximum of \$200 in free local toll and long distance calling on Fridays per month, per customer. For \$200, \$500, \$750 and \$2,000 monthly commitment levels, maximum of \$1,000 free usage. For \$4,000 monthly commitment level, maximum of \$2,000 free usage. Offer good for up to 110 consecutive Fridays total. Excludes SprintFAX® and Sprint Conference Line® services. Certain restrictions apply. Domestic calls and commercial use only. Limited-time offer. Not valid with any other offer. Promotion subject to change.

**Local toll service from Sprint may require dialing an access code in certain areas. ©1998 Sprint Communications Company L.P.



I'm a simple ma

(I like art, unusual jewelry a

reading your confidential file

SCARY THING IS THIS GUY IS NOT ALONE. LOTS OF PEOPLE WOULD LOVE NOTHING MORE
80% OF THE FORTUNE 100 HAVE CHOSEN NETWORK ASSOCIATES FOR THEIR NETWORK
1-800-332-9966, DEPT. 1938, OR VISIT WWW.NAI.COM. BUT CONTACT US SOON, BECAUSE



N
e
t
w
o
r
k
s

McAfee Total Virus Defense

PGP Total Network Security

Sniffle Total Network Visibility

McAfee Total Service Desk

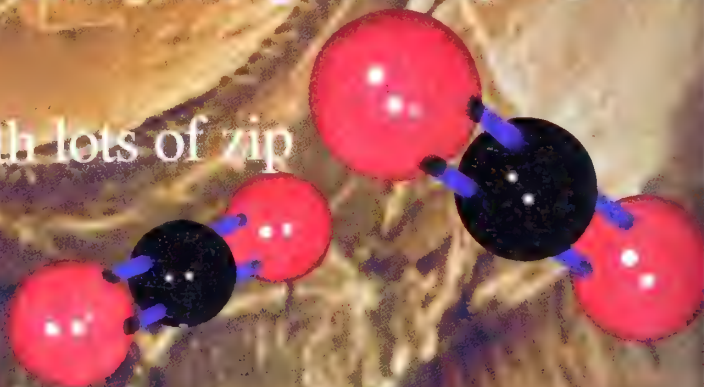
THAT NO ONE WANTS TO MESS WITH YOUR NETWORK. FORTUNATELY, YOU ARE NOT ALONE EITHER. OVER
SECURITY AND MANAGEMENT. TO FIND OUT MORE, CALL
HIS TONGUE ISN'T THE ONLY THING HE WANTS TO PIERCE.



Who's watching your network

PRAXAIR ZAPS

beetles. Every day our carbon dioxide is used to
eliminate bugs from grain elevators. Our innovative
CO₂ process offers the food industry a safer and
less expensive alternative to other pesticides.
Creating profitable solutions for our customers has
made us a \$4.7 billion industrial gas company that's
global and growing. With lots of zip
— and plenty of zaps.



PRAXAIR Making our planet more productive

For more information please call 1-800-PRAXAIR e-mail: info@praxair.com ©1998 PRAXAIR, Inc.

*Registered for use in Canada. Registration pending for use in the U.S.

EDITED BY JOHN TEMPLEMAN

WILL A NEW BREED OF STRONGMAN UNDERMINE LATIN DEMOCRACY?

Democracy blossomed in Latin America after the collapse of military dictatorships in the 1980s. But relentless pressure for economic reform has put a premium on strong leadership and delayed the strengthening of the region's democratic institutions. The price for that delay may be too high. Tough leaders, judging themselves to be indispensable, are tempted to hang on to power by any means.

Voters in some countries seem willing victims. Impatient with democracy's slowness to deliver economic benefits, they

are pinning their hopes on strongman candidates. Former dictator General Hugo Banzer was elected president of Bolivia last year, for instance, while Venezuela's Hugo Chávez, pardoned after a failed 1992 coup, is ahead in the polls for December's presidential elections. And in Paraguay, General Lino Oviedo, who threatened to overthrow the government in 1996, would probably have won the May 10 election if the Supreme Court had allowed him to run. Alarmingly, the antidemocratic bug is also invading large countries in the region. Presidents Carlos Menem of Argentina and Alberto Fujimori of Peru, for example, both want legal changes that would allow them to run for third terms. Both previously engineered constitutional amendments to get their current terms. Now, they will have to manipulate the rules yet again to stay in office. Menem's blatant power

"hurts the country's institutions, which are already weak," says political analyst Manuel Mora y Araujo.

Worse yet, Menem's personal ambitions could ultimately harm Argentina's economy. As his popularity drops to record lows, he becomes increasingly spendthrift. Recently, he reelected former pop singer Ramon "Palito" Ortega into his government with a \$2 billion budget to bankroll social programs. His draconian plan to build a 10,000-kilometer highway network would cost a cool \$10 billion. The International Monetary

Fund fears that such extravagance—on top of expected current-account deficits of 4.8% of gross domestic product—could mix an "explosive cocktail."

Menem still goes through the motions of respecting democratic norms when it suits him. His political advisers asked the courts to rule that the constitution doesn't prevent him from running in next year's election. But it was an empty gesture. The issue has reached the Supreme Court, which Menem packed with supporters. And he doesn't hesitate to use draconian press laws against publications he doesn't like.



MENEM: *Bending the rules*

Peru's Fujimori doesn't even bother with appearances. Since winning power in 1990, he has trampled over democracy. He frequently uses the army and intelligence services to enforce his rule. And last year, he unceremoniously dumped several judges after they had handed down a ruling that would make it harder for him to contest the 2000 election. He has since managed to remove virtually all obstacles to running again.

It doesn't have to be this way. Brazilian President Fernando Henrique Cardoso didn't whistle up the army or stack the deck in the courts. Instead he labored to win two 60% votes by Congress for a constitutional amendment that allows a second four-year term. Without another term, analysts say, Cardoso's

reforms would die on the vine.

But in half a dozen elections scheduled in Latin America over the next year, voters will be put to a severe test. Armies are safely in their barracks and don't want to get into politics again. The real danger for democracy is that populist politicians are trying to reassert the power of an old-fashioned, self-perpetuating, civilian autocracy.

By Ian Katz in São Paulo, with Andrea Mandel-Campbell in Buenos Aires

GLOBAL WRAPUP

BOOST FOR BEREZOVSKY?

Russian media tycoon Boris A. Berezovsky looked as though he had won the booby prize when he was named to run the Commonwealth of Independent States, the tattered remnant of 12 former Soviet republics. On the Apr. 29 appointment, say pundits, he was designed to keep him out of Russian President Boris N. Yeltsin's orbit. But Berezovsky may get the last laugh—and his business interests a boost.

His Logovaz company, the exclusive

Russian dealer for Daewoo autos made in Uzbekistan, would benefit from lower CIS customs barriers. He has a major stake in Aeroflot Russian International Airlines, which wants to expand in the CIS. With Rupert Murdoch's News Corp., Berezovsky recently bought telecommunications holdings in Russia, Belarus, and Kazakhstan. The venture could precede a push into satellite TV.

INDONESIA: AUSTERITY HURTS

► After six months of evasive bobbing and weaving, Indonesian President Suharto is implementing the terms of

the International Monetary Fund's \$43 billion rescue package. The experience is painful. A May 4 notice of the imminent end of government subsidies on oil products sparked three days of rioting and caused long lines at gas stations in the capital, Jakarta. But price hikes ranging from 25% to 71% on gas and kerosene failed to revive investor confidence in the Indonesian economy. Instead, news of the riots, coupled with reports that inflation has reached 30%, sent the rupiah into a tailspin. It lost 10% of its value in a day.



e-business



IS THERE MORE TO JAVA THAN COFFEE JOKES?

Two years ago, the introduction of Java™ software created a whirlwind of excitement and an explosion of coffee-oriented puns. Was it all hype?

At IBM, we think Java is worthy of the stir it created. An idea that brings two benefits to businesses wishing to become e-businesses: one is faster application

development, the other is the promise of standards and open connectivity.

Perhaps the most profound change that the Web has brought to the IT world is a culture of standards. It's this capability that permits universal connectivity and has allowed 80-million-plus people to access the Web. Java is the first language that allows a single application to run on any platform (write once, run anywhere™).

This can speed the application development process – since you don't have to create a different version of your software for every client, every server and every browser. And since most business environments contain a wide variety of computing platforms, Java is just common sense. So is the idea of 100% Pure Java™ – a Java that is not corrupted by offshoots and OS dependencies. (We support Sun™ on this issue.)

Is Java perfect? No. Not yet. Like any new technology, it needs refinement. But it's maturing faster than any other language in history and IBM is working to make it real. Currently, we have more people working on Java than any other company – creating real-world applications in finance, manufacturing and distribution (to name a few). And we're putting Java to work to solve real business problems.

We're also creating award-winning tools like VisualAge® software and Lotus Bean Machine™. These are powerful, flexible programming tools that make it easier for all kinds of companies to build customized solutions (everything from interactive customer service Web sites to collaborative intranets).

To learn more about how IBM and Java can help your business become an e-business (and enjoy one or two fresh coffee puns), we invite you to check out our Web site at www.ibm.com/java or call us at 1 800 IBM 7080, ext. NC39.



Solutions for a small planet™



ROCKEFELLER
TO VOTE IN
1900 PRESIDENTIAL
ELECTION

THE MONOPOLY THAT WENT TOO FAR

John D. Rockefeller's arsenal of anticompetitive weapons ultimately made Standard Oil the focal point of public ire

BY RON CHERNOW

As the merger wave of the 1990s transforms the American economy, it has spawned corporate giants of a stupefying new scale in sectors ranging from financial services to pharmaceuticals, communications, and defense. This trend has kindled fears of corporate concentration reminiscent of the early 1900s, when J.P. Morgan cobbled together U.S. Steel, International Harvester, and other such formidable behemoths, arousing the trustbusting fervor of President Theodore Roosevelt. Once again a swelling tide of consolidation has produced a militant mood in Washington. Some of America's most revered business names have now been stigmatized with the tag of monopolist. Microsoft's chief, Bill Gates has come under especially searching scrutiny from the Justice Dept. His travails have summed up memories of an ancient drama riveted the nation in the early 1900s: the Justice Dept.'s bitter and protracted antitrust suit against Standard Oil and its presiding deity, John D. Rockefeller. The oil trust refined, distributed, and marketed nearly 90% of all oil produced in America. As its leader, visionary, and chief strategist, Rockefeller was synonymous with Stan-

dard Oil, much as Gates is with Microsoft. Rockefeller's brilliant, piratical stewardship raised baffling questions about the necessary degree of government intervention in the economy.

Rockefeller always waded hip-deep into controversy. From the time he started Standard Oil in Cleveland in 1870—11 years after Colonel Edwin

**His icy efficiency
and tactical daring
were wondrous
and terrible**

Drake struck oil in Titusville, Pa.—he steered his company with an icy efficiency and tactical daring that were both terrible and wondrous to behold. During one electrifying two-month period in 1872, he acquired almost all of the rival refineries in Cleveland—22 to be exact—then successively reenacted this feat in the other major refining centers: Pittsburgh, Philadelphia, New York, Baltimore, and western Pennsylvania. Standard Oil was more than a

mere company. It was a giant, amorphous cartel with both wholly and partly owned subsidiaries. With a penchant for secrecy frequently tinged with paranoia, the trust hid its ownership of many companies and resorted to espionage to track competitors' shipments.

At a time when it cost scarcely more to build a small refinery than to open a store, many fortune-hunters swarmed into the business, creating surplus capacity and plunging profits. Rockefeller—a precise, methodical Baptist—scorned these get-rich-quick rivals and resolved to establish the industry on a stable, long-term basis. With a meticulous attention to detail, he introduced huge economies of scale that rapidly reduced his production costs far below those of competitors. He also exploited the value of byproducts, selling kerosene—the principal oil business prior to the Auto Age—as well as lubricants, varnishes, fuel oil, petroleum jelly, natural gas, and scores of other petroleum products.

Rockefeller wasn't content to vanquish rivals through lower prices and superior products alone. In the rowdy era of laissez-faire capitalism that preceded the 1890 Sherman Antitrust Act, he figured out ways to manipulate markets and starve out smaller competitors by engineering artificial shortages of

barrels, chemicals, or tank cars. To shrink refining capacity and bolster prices, he would purchase rivals, shutter their obsolete plants, and then make them sign agreements to stay out of the business. From an early stage in his march to supremacy, he colluded with the railroads to secure preferential freight rates for Standard Oil and punitive rates for rivals. After parlaying his railroad influence into an unsailable position in refining, he extended his sway to long-distance pipelines. In this way, Standard Oil formed the very infrastructure of the industry.

In the 1880s, the trust began to market oil directly, sweeping away an antiquated system of middlemen and delivering kerosene straight to the nation's grocers and hardware stores. Standard Oil divided the country into 11 exclusive marketing territories and resorted to strong-arm tactics, if needed, to ward off outsiders. Grocers who stocked kerosene from independent refiners might suddenly find a new grocery store opening across the street; this rival would not only sell Standard Oil kerosene but suspiciously cheap groceries. The trust's most potent weapon was always predatory pricing—i.e., the prolonged underselling of rivals until they were driven out of business.

With the intricate mind of a chess master, Rockefeller devised a complete arsenal of anticompetitive weapons. In writing antitrust legislation, reformers had simply to study his career. By the time Rockefeller retired from Standard Oil in the late 1890s, the Ohio Attorney General had lodged the first in an extended string of state and federal antitrust actions against the trust. Rockefeller's wary colleagues made him retain the president's title. As his partner Henry H. Rogers said: "We told him he had to keep it. These cases against us were pending in the courts; and we told him that if any of us had to go to jail, he would have to go with us!" As a result, the government, press, and general public assumed that Rockefeller's retirement was a transparent fraud and that he still quietly pulled the strings at Standard Oil—which wasn't the case.

How did Rockefeller elude the law



LAYING PIPE: PART OF THE STRUCTURE THAT MADE STANDARD INVINCIBLE

during his active business career? Why didn't public outrage against Standard Oil crystallize sooner? After all, the trusts (the term used to describe the monopolies) were seen as menacing creatures by small businesspeople bred on the gospel of individual enterprise. Progressives fretted about the corrupting influence of Big Business, which seldom had scruples about suborning state legislatures, tampering with courts, and buying politicians. Populist farmers denounced the unholy alliance of big ship-

The trust's most potent tactic was always predatory pricing

pers and powerful railroads that relegated them to marginal status. And workers found themselves in an unequal contest with employers who steadily grew in size and organization.

Yet this stereotypical view of the Gilded Age as one of a deepening tension between the "masses" and the "classes" doesn't entirely capture the public ambivalence toward the leviathans. However notorious many of their practices, men such as Rockefeller and Andrew Carnegie were superb businessmen and destined to attain heroic status in a society that worshipped money. Many Americans took pride in the

power and prosperity that these hard-bitten industrialists conferred on a largely agrarian society.

The late 19th century was also a splendid time for consumers who were dazzled by new products from light bulbs to telephones. In some respects, the Gilded Age was a period much like our own, distinguished by perpetual innovation and an explosion of new industries. Trusts, despite their sins, patented advanced products, methods and slashed the prices of many products. Prices might

well have been lowered by perfect competition, but the average consumer enjoyed a steady cheapening of the necessities of life. During its first two years, Standard Oil trimmed the average price of refined oil from 23¢ to 7¢ a gallon, so that Rockefeller could boast having bestowed cheap oil on the masses. Partly through economies of scale introduced by the trusts, the general price level fell steadily from the end of the Civil War to the turn of the century.

After William McKinley was assassinated in 1901 and Theodore Roosevelt rose to the Presidency, public tolerance for the trusts eroded. This stemmed partly from the tremendous merger boom that started in 1897 and engulfed many industries. As small businesses disappeared into the maws of massive combines, the public stared aghast at the magnitude of these new entities. That they were forged by Wall Street financiers such as J. Pierpont Morgan only heightened fears of a new economic absolutism. By no coincidence, the first great wave of trustbusting got under way in the early 1900s, just as late 19th century deflation bottomed out and prices began a slow but inexorable climb. When John D. Archbold, Rockefeller's successor at Standard Oil, created steep price hikes in domestic kerosene, the public finally rebelled and would tolerate harsh business methods and the lopsided distribution of wealth as long as it could share, to some extent, in the gains. But once irate consumers teamed up with Rockefeller's disgruntled business opponents to take the trust, Standard Oil's days were numbered.

ENDGAME

The longest running morality play in U.S. business history reaches a dramatic conclusion

As they approached the 1904 Presidential election, Standard Oil executives knew that the oil trust stood at the top of President Theodore Roosevelt's list of evil trusts to be reined in by federal regulators. Since the idea of backing Roosevelt's Democratic opponent, Alton B. Parker, was unthinkable to Standard Oil chief John D. Rockefeller and his associates, they gathered the incumbent with money, including a \$100,000 contribution from Standard Oil executive Henry Rogers. Other businessmen who feared the threat of federal regulation—including railroad magnate Edward H. Harriman, former Carnegie partner Henry Clay Frick, and banker James Stillwell—also paid tribute to Roosevelt, provoking Democratic charges that the President was being bribed by the very companies he vowed to control. Attorney General Philander Knox wandered into Roosevelt's office one day in October, 1904, and found the President dictating a letter ordering the return of the Standard Oil funds. "Why, Mr. President, the money has been spent," Knox objected. "They cannot pay it back—they haven't got it," he replied. "Well," Roosevelt said, "the letter will look well on the record, anyhow."

When Roosevelt won by an impressive margin in November, John D. Rockefeller sent a telegram to him: "I congratulate you most heartily on the grand result of yesterday's election." Rockefeller had great faith in his powers of persuasion and was convinced that he could convert even his most rabid foes to his cause. After all, the executive ranks of

Standard Oil were populated with erstwhile rivals whom he had recruited.

Rockefeller was never the cold curmudgeon of myth and had been deeply charitable since adolescence. The son of a pious mother and a raffish father who peddled patent medicines, Rockefeller strangely combined traits from both parents. If generally laconic like his mother, he also exhibited his father's geniality. He had good manners, an inexhaustible fund of droll stories, and a dry Midwestern wit. This private

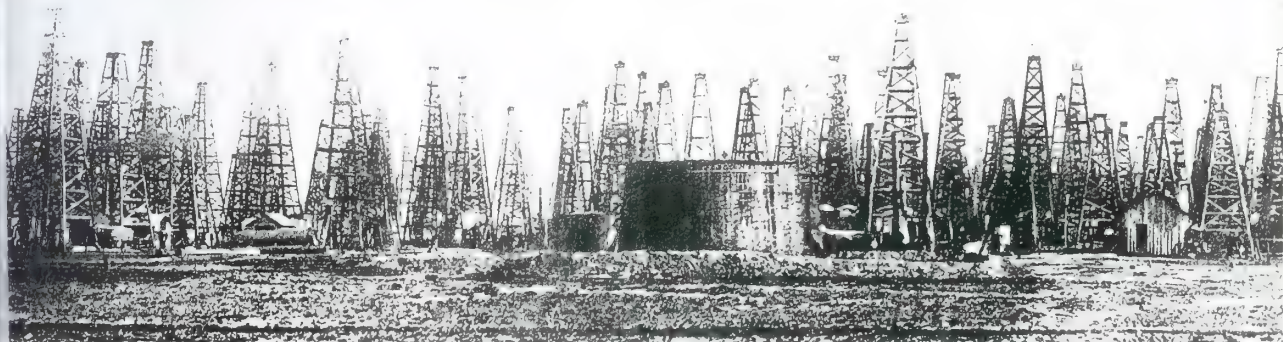
Rockefeller was known only to friends and colleagues, and he never bothered to correct press distortions about his personality until antitrust considerations made that politic.

In the Standard boardroom, the contribution to Roosevelt's campaign was soon acknowledged to be the worst investment they had ever made. Back in 1903, Roosevelt had pushed Congress to create a Bureau of Corporations endowed with broad powers to investigate trusts, and before the election, the Bureau, headed by James R. Garfield, the son of the former President, had begun to gather data on Standard Oil. But Garfield was friendly with some

Standard Oil lawyers, and the initial inquiry went amicably enough. Then, in February, 1905, by a unanimous resolution, the House of Representatives urged an antitrust investigation of Standard Oil, a result of the oil boom in Kansas.

Reenacting a drama once played out in western Pennsyl-

From the book Titan: The Life of John D. Rockefeller, Sr. by Ron Chernow. Copyright © 1998 by Ronald Chernow. Reprinted by permission of Random House, Inc.



TEXAS OIL BOOM: INDEPENDENT PRODUCERS WERE THE IMPETUS BEHIND THE ANTITRUST DRIVE

To Rockefeller, competition meant industrial chaos

vania, independent oil producers and refiners protested that Standard Oil dominated the state's pipelines, and they also accused it of conspiring with the railroads. Their passions were fanned by Ida Tarbell's widely read series of 19 muckraking articles, which had dissected Standard Oil's machinations in *McClure's Magazine* from 1902 through 1904, and by a dramatic tour she made through the oil

Book Excerpt

RON CHERNOW'S TITAN

fields. Suddenly, Commissioner Garfield was summoning Archbold and Rogers to question them about Standard's behavior in the state. When he broached the touchy subject of railroad rebates—the flash point for so many battles in oil history—their relations deteriorated hastily. A new generation of independent oil producers in Kansas, Illinois, Oklahoma, Texas, and California would provide the motive force behind the antitrust drive against the Standard.

The Tarbell series virtually guaranteed that Standard Oil would be the central target of any federal trustbusting probe. Tarbell thought it the optimal choice because it was “the mother trust and the most nearly monopolistic.” It furnished a well-known consumer product, kerosene, affected nearly everyone, and had an abundant history of hearings and lawsuits to excavate. In the early 1900s, petroleum was being applied to many new uses, from fuel for ships to gasoline for cars, and it no longer seemed tolerable for one organization to retain a stranglehold over it.

In targeting Standard Oil, Roosevelt hoped to check two abuses at once: railroad collusion and industrial monopoly. When the Bureau of Corporations sent him its report on the oil trust, it highlighted Standard's connivance in winning secret preferential rates from the railroads. Seizing upon this as a potent tool to push through the Hepburn bill, which strengthened railroad regulation, Roosevelt made the 500-page report public on May 2, 1906. “The report shows that the Standard Oil Company has benefited enormously up almost to the present moment by secret rates,” the President declared.

Moreover, in Standard Oil, Teddy Roosevelt found a trust tailor-made for his purposes: big, rich, brutal, unpopular, and totally unrepentant. For years, Rockefeller and his colleagues had ignored public opinion, refusing to give interviews and behaving defiantly at hearings. Mocking the petty efforts of politicians to obstruct them, an unreconstructed Henry Rogers swore, “We will see Standard Oil in hell before we will let any set of men tell us how to run our business.” The most pugnacious Standard Oil executive was Archbold, Rockefeller's successor, who didn't hesitate to trade insults with prosecuting attorneys. He was quick to suborn politicians, and his backroom maneuvers contributed to a pungent odor of corruption that emanated from Standard Oil in the early 1900s.

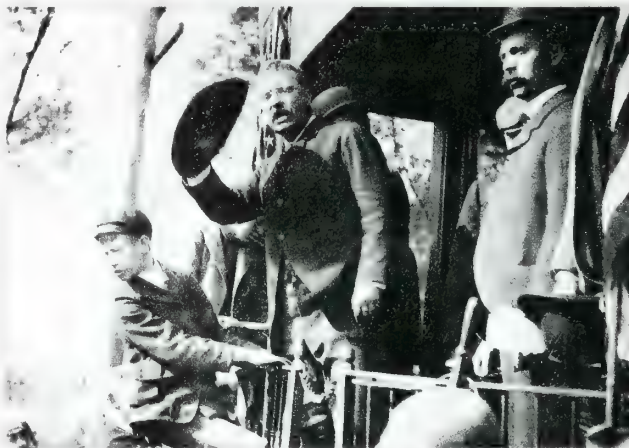
Roosevelt adored grandstanding and liked to use his bully pulpit to incite a popular furor. With an ex-pugilist's flair for feints and bluffs, he kept the combine thoroughly confused about his true sentiments. At moments, he issued strong public denunciations: “Every measure for honesty in business that has been passed in the last six years has been opposed by these men.” Even less temperate in private, he told Attorney General that the Standard Oil directors were “the biggest criminals in the country.” Then, in friendly private chats at the White House, he disarmed the very Standard Oil rectors he had reviled by seeming the soul of civility.

Even as Roosevelt entertained the bosses of Standard Oil, he was about to unleash the government's full force against it. In late June, 1906, Roosevelt summoned Attorney General William H. Moody and other Cabinet members for

an unusual nocturnal session at the White House to discuss the possibility of prosecution. On June 22, Moody announced a preliminary investigation headed by Frank B. Rowlogg, of an antitrust suit against Standard Oil. The move that one newspaper reported under the sensational headline, “Standard Oil Officials May Go to Prison.”

By this time, Standard Oil officials knew that they had been grossly deceived by the President's genial manner. In retrospect, it seems clear that the ambiguous signals from the White House reflected more than duplicity on Roosevelt's part; for he was genuinely reluctant to wield the big stick against Standard Oil. He preferred compromise antitrust cases, which were slow, time-consuming, and fiendishly difficult to win.

He wanted to supervise trust reform without breaking them up and sacrificing their efficiency, and he was searching for some conciliatory overture from his adversaries, a suggestion that they would accept government oversight and voluntarily mend their ways. But compromise was so alien to Archbold that he did not see that he might have averted an antitrust suit with a little political flexibility.



TEDDY ON THE STUMP: STANDARD OIL WAS AN EASY TARGET

Roosevelt preferred compromise to slow, hard-to-win antitrust cases

Privately, and in talks with business associates, Rockefeller had articulated a theory of trust that was very different from that held by Roosevelt and allowed little room for government regulation. In the industrial boom after the Civil War, the most significant revolt against free-market capitalism had come not from reformers or zealous ideologues but from businessmen like Rockefeller who couldn't control the maddening fluctuations in the marketplace. Pestered by overproduction in the oil industry, Rockefeller tirelessly mocked those “academic enthusiasts” and “sentimentalists” who expected business to conform to their tidy competitive models. He didn't see how he and others could build vast, enduring industries in a volatile economy disrupted by recessions, deflation, and explosive boom-and-bust cycles. Thus, Rockefeller and other



**What could we possibly do
to make the best business news
on TV even better?**

dustrial captains conspired to kill competitive capitalism in favor of a new monopoly capitalism.

Rockefeller brooded for many years on a theoretical defense of monopoly, giving the subject a great deal of intelligent thought. He arose as the prophet of a new dispensation in economic history. As he said: "It was the battle of the new idea of cooperation against competition, and perhaps in no department of business was there a greater necessity for this cooperation than in the oil business."

Rockefeller's logic deserves some scrutiny. If, as he asserted, Standard Oil was the most efficient, lowest-cost producer, why didn't he just sit back and wait for competitors to go bankrupt? Why did he resort to the tremendous expense of taking over rivals and dismembering their refineries to slash capacity? According to the standard textbook models of competition, as oil prices fell below production costs, refiners should have retrenched and padlocked plants. But the oil market didn't correct itself in this manner because refiners carried heavy bank debt and other fixed costs, and they discovered that, by operating at a loss, they could still service some debt. Obviously, they couldn't lose money indefinitely, but as they soldiered on to postpone bankruptcy, their output dragged oil prices down to unprofitable levels for everybody. Hence, a perverse effect of the invisible hand: Each refiner, pursuing his own self-interest, generated collective misery.

What made an expeditious shutdown of outmoded rivals vital to Rockefeller was that he had borrowed heavily to build gigantic plants so that he could drastically slash his unit costs. Early on, Rockefeller realized that in the capital-intensive refining business, sheer size mattered greatly because it translated into economies of scale. During his career, Rockefeller relentlessly cut the unit costs of refined oil, and he never deviated from this gospel of industrial efficiency.

On Nov. 18, 1906, the federal government filed suit in Missouri to dissolve Standard Oil under the Sherman Antitrust Act, naming as defendants Standard Oil of New Jersey, sixty-five companies under its control, and a pantheon of leading executives, including John and brother William Rockefeller, Henry Flagler, John Archbold, and Henry Rogers. They were charged with monopolizing the oil industry and conspiring to restrain trade through a familiar litany of tactics: railroad rebates, the abuse of their pipeline monopoly, predatory pricing, industrial espionage, and the secret ownership of ostensible competitors. The proposed remedy was sweeping: to break up the massive combine into its component companies.



JOHN D. GOES TO COURT: 939 INDICTMENTS IN OHIO

Rockefeller found himself being held accountable for actions he had not approved

framed, aimed at the same target."

By the summer of 1907, the political fight against Standard Oil had spread across a vast, bloody battlefield, with several federal and six state suits (Texas, Minnesota, Missouri, Tennessee, Ohio, and Mississippi) in progress against the battered trust. New legal skirmishes seemed to crop up weekly. That year, an Ohio grand jury brought in 939 indictments against Rockefeller and other Standard Oil officers; a bill was introduced in Tennessee to oust the trust on antitrust grounds; Missouri fined and expelled a Standard Oil subsidiary, the Waters-Pierce Company; and so on and so forth.

Approaching his 68th birthday, Rockefeller had never imagined that his twilight years would be so eventful. His fortune had failed to purchase him even a poor man's mitzvah of tranquility. As nominal president of Standard Oil, he was a bind, responsible for actions he had not approved. In a July 1907 letter that betrayed considerable anguish, Rockefeller pleaded with Archbold to accept his resignation and release him from his torment. During the next two weeks, he repeatedly proffered his resignation, telling Archbold he would free him from several subpoenas. Although he owned 27.4% of Standard Oil stock—three times the amount held by Flagler, the next largest shareholder—Archbold turned down flat, and Rockefeller bowed to his protégé's wishes. The decision did not sit well with him.

One thing evident amid the spate of lawsuits was that railroad rebates had not faded as an issue, even though pipelines had governed the oil business for more than a generation. When rebates were again forbidden by the Elkins Act of 1903 and the Hepburn Act of 1906, the public naively assumed they had ended. Then the Interstate Commerce Commission reported in January, 1907, that Standard Oil was still secretly accepting rebates, spying on competitors, setting up bogus subsidiaries, and engaging in predatory pricing—the same deadly sins patented by Rockefeller back in the 1850s. Roosevelt and his Cabinet thirsted for a test case that would prove Standard Oil's collusion with the railroads and dramatize the twin evils of abusive trusts and scheming railroads.

The issue was duly highlighted in a 1907 case in Chicago in which Standard Oil of Indiana was accused of taking illegal

Book Excerpt

RON CHERNOW'S TITAN



Put The Wall Street Journal on it.

CNBC and The Wall Street Journal have just teamed up to make TV's best global business news network even better. Now get the insights of The Journal's award-winning reporters on CNBC as events happen. And this is on top of last year's 68 percent ratings increase and 65 million subscribers. Now more than ever CNBC is the indispensable, essential, vital business information source. Watch it.

- In the morning before the market opens • All day as the market unfolds
- After the closing bell to get a jump on tomorrow • Weekdays 5:30 AM to 7:30 PM/ET



Real Time. Real Depth.

www.cnbc.wsj.com

BUSINESS INTELLIGENCE

HAS IT CROSSED THE CHASM?

Over the past several years, an innovative business approach has gained an increasingly high profile. Business intelligence gives companies the ability to extract greater value from corporate information to enable everyone across the enterprise to make better decisions that directly impact the bottom line. Leading organizations worldwide are already achieving significant competitive advantage with business intelligence. But has it reached a critical mass? Is it moving beyond being the "invisible" advantage of Fortune 1000 companies to become an essential component of mainstream business success?

PASSING THE MAINSTREAM TEST

To answer these questions, consider what mainstream decision makers demand from a business approach. First, a record of proven, bottom-line results. Second, mature products and professional services to address the complete range of enterprise needs. Third, the security of dealing with an established market leader offering best-of-breed products and global support. And fourth, fast and easy deployment using an organization's existing IT infrastructure — often this is the single most important determinant of whether a technology achieves mainstream acceptance.

As the worldwide business intelligence market leader, Cognos Corporation of Burlington, Mass., is uniquely positioned to address all of these criteria. Through developing products that solve customers' specific business problems, Cognos has discovered effective ways to use business intelligence in every department of every enterprise, and in every industry. Today, organizations like Domino's Pizza, Ford, Johnson & Johnson and the National Association of Security Dealers (NASD) are cutting costs, increasing efficiency and enabling new strategic capabilities by adopting Cognos' award-winning business intelligence software. This market leadership is evident in Cognos' strategic

technology partnerships with other industry leaders such as IBM, Microsoft, PeopleSoft, Oracle and SAP. And Cognos business intelligence software deploys easily and quickly across the enterprise, typically delivering return on investment within 30 to 90 days.

SETTING THE AGENDA

The cornerstone of Cognos' success has been enduring customer relationships. As technologies and business needs have evolved, Cognos has responded with new products that extend business intelligence capabilities. Thanks to these pioneering efforts, a paradigm shift has occurred within many leading-edge companies: managers now expect to be able to

< Organizations like Domino's Pizza, Ford, Johnson & Johnson and the National Association of Security Dealers (NASD) are cutting costs, increasing efficiency and enabling new strategic capabilities by adopting Cognos' award-winning business intelligence software. >

easily access corporate data and view it from any angle, in any combination. They expect that creating reports will not be complex or time consuming. They expect to be able to automatically uncover hidden factors impacting their business. In other words, business intelligence has become integral to how they achieve and sustain competitive advantage.

THE POWER OF THE WEB

As business intelligence enters the mainstream, Cognos has developed products that leverage the World Wide Web, which has emerged as a mainstream computing platform. Through the Web, business intelligence capabilities can be distributed to an entire organization. As a result, every department gains a broader perspective of their impact on the organization, and the impact of other departments on theirs. They can plan better, coordinate the flow of information across the organization. They can better align departmental goals with long-range corporate goals. The result: better decisions, every day — by everyone in the organization.



Learn how other companies have used business intelligence to cross the chasm to increased competitiveness. Order your **free** copy of *The Multidimensional Manager* book at www.cognos.com/chasm.

know. act.



Knowing what is driving business gives you the power to influence where it goes. Cognos puts that power in the hands of every manager within your entire organization. Our world-leading Business Intelligence software lets managers access and analyze multidimensional corporate data whenever they need it. To reveal hidden relationships. To spot key trends and opportunities.

To plan more effective strategies. To make more informed, better decisions, every day. Find out how Cognos Business Intelligence can impact your bottom line within 90 days by asking for a free copy of the Multidimensional Manager, the authoritative guide to implementing Business Intelligence in your organization. Call 1-800-426-4667 ext. 2267 or visit our web site.

www.cognos.com/gain

Cognos, the Cognos logo and Better Decisions Every Day are trademarks of Cognos Corporation.

COGNOS
Better Decisions Every Day™

bates from the Chicago & Alton Railroad. The shipments in question had passed between Whiting, Ind., and East St. Louis, Ill., after such rebates were outlawed by the Elkins Act. (Rockefeller had always insisted that Standard Oil took no rebates after they were banned in 1887.) The presiding figure in the Chicago courtroom was a gaunt, outspoken judge with prematurely white hair named Kenesaw Mountain Landis who, at 41, was newly appointed to the federal

Book Excerpt

RON CHERNOW'S TITAN

bench and later served as the first baseball commissioner.

Eager to levy an eye-popping fine against the trust, Landis asked its attorneys for figures on its capitalization and earnings between 1903 and 1905. The Standard lawyers, Landis knew, were in a tight spot: If they furnished the true figures, they might invite a punitive fine; if they withheld them, they would look guilty. On June 26, 1907, the federal district attorney tried to pry loose from Standard counsel John S. Miller a list of employees privy to those numbers. "I'll see you in hell first" was Miller's cordial reply. This riposte backfired: Landis assigned U.S. marshals to subpoena several Standard Oil officials, including Rockefeller. Flouting the judge's request, Rockefeller fled and stayed with his daughter Alta and her husband in Pittsfield, Mass. For several days, as the press guessed at Rockefeller's whereabouts, Landis' process server tried to track the titan through New England's countryside.

When Teddy Roosevelt and his Attorney General heard that Landis wanted to haul Rockefeller into court, they were greatly dismayed, for if Rockefeller testified in the Chicago case, he might win an "immunity bath" from possible criminal prosecution in the more important federal antitrust suit. They sent an emissary to Chicago to plead with Landis. "I'd like to oblige Mr. Roosevelt," he said. "I'd do anything in reason to oblige him. But Rockefeller is making a monkey out of my process server, and I'm going to bring him before this court to vindicate its dignity." Rockefeller must have discovered the legal advantages of testimony, because he suddenly contacted Judge Landis from Pittsfield and voluntarily accepted a subpoena from a deputy marshal.

On the sultry morning of July 6, 1907, John and William Rockefeller arrived at the federal building and found streets teeming with hundreds of spectators. When Rockefeller was spotted in a straw hat, grasping a slender cane, somebody shouted, "Here he comes!" The crowd surged forward in such close ranks that it took a squad of twenty club-wielding detectives to clear a path. Rockefeller grinned when a street urchin called out: "There's a man who got his picture in the paper." Some zealous onlookers tore buttons from Rockefeller's coat. By the time the Rockefeller brothers reached the sixth-floor courtroom, a red-faced William, sweating profusely, muttered: "An outrage! I never heard of such treatment." By contrast, John D. exhibited his usual cool demeanor before an unruly mob. When he entered the sweltering courtroom, with electric fans slicing overhead, he even imitated a re-

porter trying to take notes in the crush of people. Once the doors were closed, the hum of spectators outside was still loud that policemen had to clear the corridor.

After the marshal brought down his gavel, Rockefeller began 15 minutes of unforgettable testimony. A virtuoso of evasive testimony, he was the tranquil eye of the storm. One reporter noted, "Mr. Rockefeller was the coolest looking man in the room. Every motion he made was slow and dignified. His step was slow. His replies to the questions of the court were even slower." Judge Landis, itching to interrogate Rockefeller, had not reckoned on his incomparable mastery of prevarication and selective memory loss. Rockefeller turned himself into a confused old dotard. The most modest questions seemed to pose insurmountable challenges to his mind.

To start things off, Judge Landis asked: "Mr. Rockefeller, what is the business of the so-called Standard Oil Company, New Jersey?" "I believe, your honor..." Rockefeller began, then appeared to lose his way. He paused, fiddled with his cane, crossed his legs, then made a second stab at an answer. "I believe, your honor..." Here again, his mind wandered as Judge Landis tapped his spectacles on his desk in frustration. Finally, Rockefeller concentrated his faculties and replied, "I believe, your honor, they operate an oil refinery in New Jersey." To all questions Rockefeller responded in this same slow, disconnected style, making his testimony worthless. In exchange, Landis had to give Rockefeller one thing he dearly wanted: immunity from criminal prosecution. The testimony was not only a fiasco for the judge but a public-relations victory for Rockefeller. How, people wondered, could this sweet, bumbling old man have been the evil wizard of the trust? His testimony even received plaudits from the press.

A month later, Judge Landis took his revenge. On the morning of August 3, 1907, as more than 1,000 people sought entrance to his courtroom, Landis read aloud his decision in the Standard Oil case. (Possibly in anticipation, Rockefeller had just announced a \$32 million gift to the General Education Board, a philanthropy that had founded to promote education in the South.) Once again, with difficulty, the marshals shut the great doors

keep out waves of spectators. Pale and edgy, Judge Landis called Standard Oil no better than a common thief and catalogued its lawyers for their "studied insolence." As spectators guffawed at these insults, the bailiffs repeatedly had to repeat the order. Then, Landis delivered his bombshell: a fine against Standard Oil of Indiana that dwarfed any other in American corporate history up until that time: \$29.24 million (\$466 million in 1997 dollars). This was the maximum penalty: \$20,000 for each of 1,462 carloads of oil cited in the indictment. Reporters struggled to convey the magnitude of this fine. That money could build five battleships; fill 177 flatcars with silver dollars; employ 48,730 city-street workers each year. It amounted to slightly more than half the money coined annually by the federal government. Since it represented nearly 30% of Standard Oil's \$100 million capitalization, Rockefeller's theoretical share of the fine worked out to \$8,011,760. Asked about the penalty, Mark Twain, a close friend of Standard Oil execu-



JUDGE LANDIS: BESTED BY ROCKEFELLER

**In testimony, the
evil wizard turned
into a sweet,
bumbling old man**

HEEL. SIT. STAY.

GOOD NETWORK.



Sure. One minute your PC network's your best friend. Next thing you know, it's your biggest nightmare. But we can fix that. Because we can help you design, implement, manage, monitor and maintain your entire network infrastructure. LAN to WAN, desktop to laptop, Legacy to latest. In other words, we'll have those multiple technologies and systems and functionalities and preferences doing exactly what you say. When you say it. And you'll be the boss of your network.

It won't be the boss of you.



MANAGING TECHNOLOGY IN THE FACE OF CHANGE

ASSET MANAGEMENT • BUSINESS CONTINUITY • NETWORK SERVICES • LEASING



smart cookie.

It's far more than a snack. It's a cultural icon. And today, freshly packaged by some innovative automation technology from Rockwell, Nabisco's Oreo® cookie is finding ways to take an even bigger bite of its market. That's typical of the intelligent solutions we offer all kinds of customers. Whether it's the semiconductor chips that enable products from leaders like Brother, Panasonic and Sharp to fax hundreds of millions of pages each day. The avionics that enhance the efficiency of airline fleets. Or the automation systems that control the temperature in the Louvre to preserve the mystery of the Mona Lisa's smile. Smart answers for smart companies. Because whatever your business, the bottom line is this. *You succeed. We succeed.™*

Rockwell

Electronic Controls and Communications

www.1

Henry Rogers said it remained him of the prices until the next morning. "I expected it not, but suppose it would be so," he said.

Rockefeller used the record fine to put on a show of aplomb. He was in the middle of a golf foursome in Cleveland when a messenger came sprinting across the fairway, carrying a penum envelope. Taking it and handing the boy a dime, Rockefeller read the verdict without even a twitch. Finally, he put the message in his pocket and said to his golf partners, "Well, shall we go on gentlemen?" Then he hit an excellent drive of about 160 yards down the fairway. By all reports, Rockefeller was in superb form and completed nine holes in 53 shots, his best score ever.

Of course, Rockefeller's poker face concealed deep rage. The Landis fine supported the thesis that the Standard Oil empire was based on unethical, even illegal, rebates, not on the business acumen of its founders. Before the day was over, Rockefeller issued a statement upbraiding the court: "A great injustice has been done the company. It was from ignorance on how the great business was founded. For all these years no one has known and no one seems to have cared how it came into existence."

At one point during that famous golf game of Aug. 3, 1907, Rockefeller had remarked, "Judge Landis will be dead a long time before this fine is paid." He seldom spoke so harshly in public, but his prediction proved accurate. Many saw the Landis fine as more of a political statement and a publicity stunt than sound jurisprudence. In July, 1908, a federal appeals court not only revoked the fine but reprimanded Landis for considering each carload of oil as a separate offense. Judge

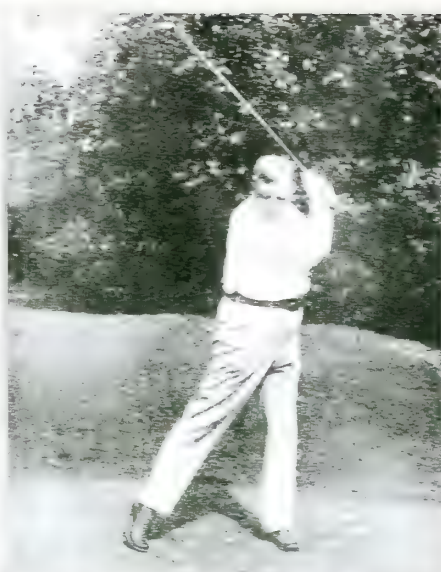
Peter S. Grosscup, "Judge Landis' act an 'abuse of judicial discretion,'" ordered a retrial, in which Standard Oil was found not guilty. Teddy Roosevelt was hopping mad at the appeals court. While he had thought the Landis fine excessive, he had thought the trial itself fair. The day after the fine was thrown out, Roosevelt announced that the government would again prosecute Standard Oil for accepting rebates, since "there is absolutely no question as to the guilt of the defendant nor of the exceptionally grave character of the offense." Dismayed, he said with a touch of bombast that the decision had "hurt the

Book Excerpt

RON CHERNOW'S TITAN

After the Landis fine was announced, Standard Oil tried to alter its strategy and negotiate a compromise. That September, it held out a tempting deal to investigators: It would open its books and abide by any recommendations to guarantee compliance with the antitrust laws if the government withdrew its suit. But Roosevelt was no longer in the mood for a truce. "If we have a criminal case against these men," he told Attorney

General Charles Bonaparte. "I should be very reluctant to surrender it." Since Rockefeller had created the largest business empire of the late 19th century, it was only fitting that he should face the most massive antitrust suit of his day. Some 4 witnesses delivered 11 million words of testimony; swollen by 1,374 exhibits, the proceedings filled 12,000 pages in 21 thick volumes. Before the trial was over, Standard Oil had also contested some 21 state antitrust suits from Texas to Connecticut, leading one historian to comment: "Never before in the history of the U. S. had there been so far-reaching a struggle between industry and government."



A \$29 MILLION FINE DIDN'T HALT HIS GAME

"Judge Landis will be dead a long time before this fine is paid"

could least afford to enrage public opinion. It is no coincidence that Ida Tarbell's series and Teddy Roosevelt's trust-busting coincided with Archbold's more grasping regime. He was a much less clever monopolist than his mentor.

Federal prosecutor Kellogg tried to show that Standard Oil routinely engaged in predatory pricing, eliminating competitors and then hoisting prices to exorbitant levels. He estimated that true competition prevailed in fewer than 10% of all petroleum markets and noted that kerosene prices had risen unreasonably from 1895 (when Archbold took charge) to 1906, creating widespread consumer discontent. To justify Standard's plush earnings, Rockefeller cited everything from fire hazards to the vagaries of drilling to the need to invest in new fields. To which Kellogg responded with sarcasm: "But Standard Oil has been paying enormous dividends right along." Lifting his eyes heavenward, Rockefeller replied, "And we were grateful for it."

Once again, the press found it hard to believe that the amiable old gent with his sudden memory lapses and fudgery logic was the fearsome raptor of Standard Oil. "Now that Rockefeller has emerged from his seclusion and is seen in the new light of a public inquiry, he appears no such monster; the public fancy has painted," observed one paper. "He is affable to the point of cordiality." Perhaps if Rockefeller had made himself available at the beginning of his career as now did at the end, he might not have been sitting in the witness stand.

As he awaited the verdict in the antitrust case against Standard Oil, Rockefeller, usually a tough-minded realist, was back on the most feathery hopes. After the 1908 election, he was relieved to be free of Teddy Roosevelt, who had over the Republican nomination to his corpulent Secretary War, William Howard Taft. On Oct. 29, 1908, in a cameo performance at Standard Oil's Manhattan headquarters at Broadway, Rockefeller endorsed Taft for President. "He is

TO SUSTAIN LIFE OUT HERE, THERE ARE
A FEW THINGS YOU MIGHT WANT TO CONSIDER.

Ice axe.

Safety rope.

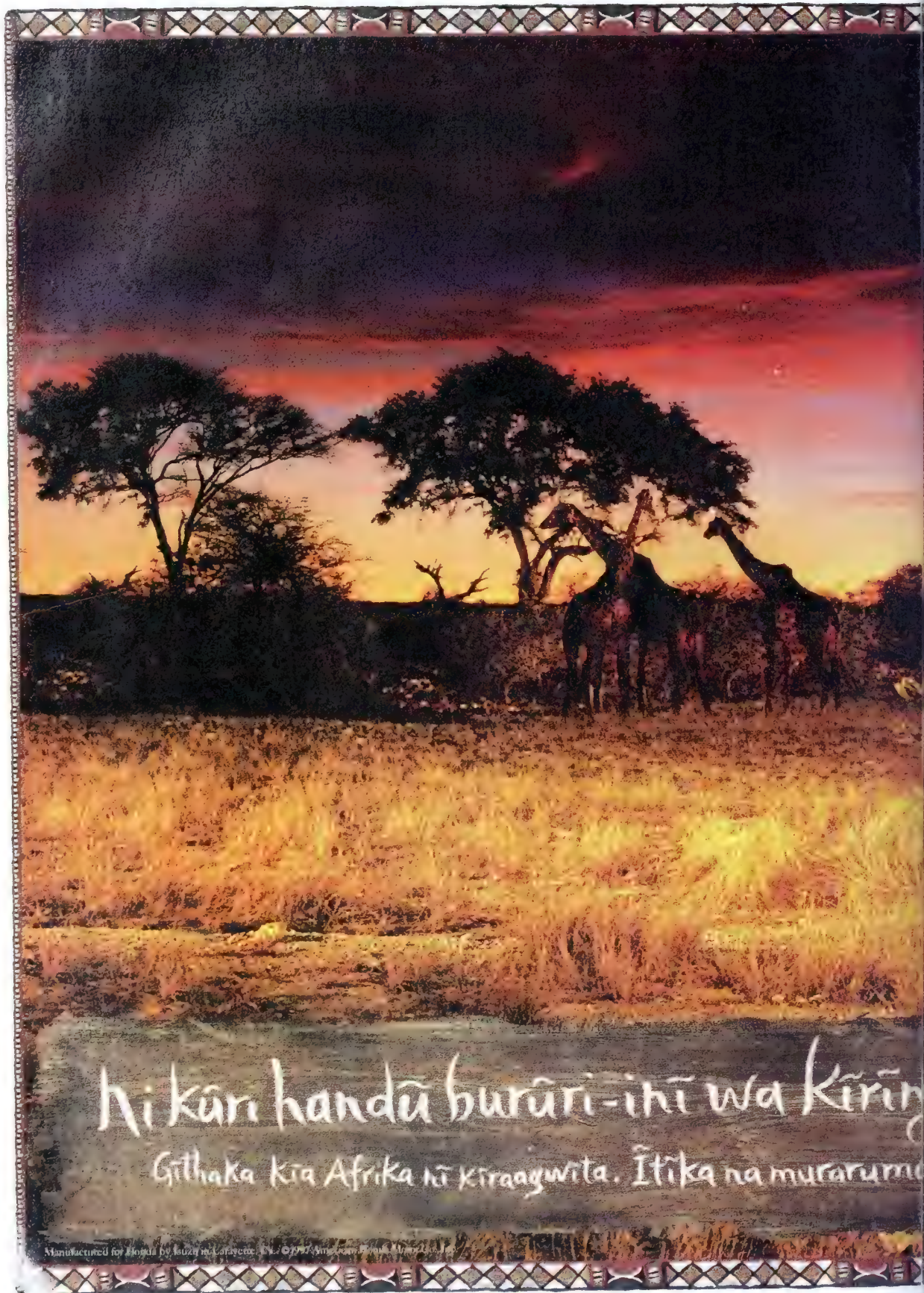
Glacier glasses.

Warmth.

COMPUWARE

What do you need most?

For application development, testing and management, four out of five of the world's largest corporations rely on Compuware. People and software for business applications.



hi kũri handũ burũri-ihĩ wa Kĩrĩngĩ
Gĩthaka Kĩa Afrika nĩ Kĩraagwĩta. Itĩka na murarũmĩ

Manufactured for Bonga by Bonga na Kariyem, Inc. © 1997 American Bonga, Inc.

If your fluency in Kikuyu isn't up to snuff, call 1-888-800-9737 ext. 302 for a translation. Or, v t

 **HONDA**

The all-new Passport.



hena thingira wina rîlwa rîaku.
ort wina horsepower ya magana mîrî na ithano.

passport.com. Then ask yourself, if you had a new Passport, where would you go?

a man, I judge, to venture with rash experiments or to impede the return of prosperity by advocating measures subversive of industrial progress." For his part, Taft liked Rockefeller personally but loathed the trust. And while many industrialists hoped that antitrust prosecutions would slacken after Taft's election victory over fire-breathing populist William Jennings Bryan—who had said that Rockefeller should be sent to prison—the new President initiated 65 antitrust actions, even more than the 44 brought by Roosevelt.

In November of 1909, a federal circuit court in St. Louis ruled unanimously that Standard Oil of

Book Excerpt

RON CHERNOW'S TITAN

New Jersey and 37 affiliates had violated the Sherman Antitrust Act; the holding company was given 30 days to divest itself of its subsidiaries. Taft praised Frank Kellogg for his "complete victory," while Teddy Roosevelt, on safari in Africa, where he was butchering a small zoo's worth of animals, conveyed his elation, terming the verdict "one of the most signal triumphs for decency which has been won in our country."

Although the trust appealed instantly to the Supreme Court, a deep sense of gloom settled over 26 Broadway as the final verdict approached. By the spring of 1911, the wait for the Supreme Court's decision began to seem interminable, and even the President grumbled about the court's glacial pace. Because the court's composition changed after the death of one justice, the arguments had to be heard twice.

When the end came for Standard Oil after 41 years of existence, it was swift, sudden, and irrevocable. At 4 p.m. on May 15, 1911, Chief Justice Edward White told a sleepy courtroom: "I have also to announce the opinion of the Court in No. 398, the United States against the Standard Oil Company." At once, the room quivered with expectation as senators and congressmen streamed in to hear the verdict. For the next 49 minutes, White read aloud the 20,000-word opinion, speaking in such a low, monotonous voice that other justices had to lean over and ask him to speak louder. In his mumbled, historic words, White upheld the decision to dismantle Standard Oil, which was given six months to spin off its subsidiaries, with its officers forbidden from reestablishing the monopoly. Thus ended the longest running morality play in American business history.

Rockefeller reacted with studied nonchalance. He was golfing with Father J.P. Lennon from the Tarrytown Catholic church when he learned of the decision, and he did not seem particularly perturbed. "Father Lennon," he asked, "have you some money?" The priest said no, then asked why. "Buy Standard Oil," Rockefeller said—which turned out to be sound advice. To his former partners, he sent a sad, whimsical obituary that began: "Dearly beloved, we must obey the Supreme Court. Our splendid, happy family must scatter." Intent as always on ignoring bad news, Rocke-

feller refused to read the celebrated opinion that broke up his empire—exactly what one would have expected.

The 1911 decision was not an undiluted triumph for reformers by any means, and many of them considered a shameful betrayal. Wisconsin Senator Robert La Follette, who stood in the courtroom as Judge White read the verdict, told reporters afterward: "I fear that the court has done what the trusts wanted it to do, and what Congress has steadily refused to do." Echoing this, William Jennings Bryan asserted that Chief Justice White had "waited years to throw his protecting arms around the trusts and tell them how to escape."

For 15 years, White had vainly advanced a doctrine called the "rule of reason," which would not outlaw every combination in restraint of trade but only those that were unreasonable and violated the public interest. This doctrine vastly expanded judicial discretion and opened a loophole large enough to tolerate many trusts. In the lone dissent, Associate Justice John Harlan angrily protested this new principle, banging the bench and accusing

his fellow justices of having put "words into the antitrust act which Congress did not put there." He added merrily, "You may now restrain commerce, provided you are reasonable about it; only care that the restraint is undue." The decision tallied in many ways with Teddy Roosevelt's belief that government should curb irresponsible trusts but not meddle with good ones. The militant reformers were not to consider it, at best, a tactical victory.

As so often happens in politics and markets, by the time of the Supreme Court's 1911 decision, evolutionary changes in the marketplace had already eroded the trust's dominance. With the final amalgamation of Royal Dutch and Shell in 1907, Standard Oil at last faced a worthy competitor abroad while the Anglo-Persian Oil Company was tapping new fields in the Middle East.

At home, new oil fields appeared in Texas, Oklahoma, California, Kansas, and Illinois, providing an opening for assertive newcomers. Where the trust had pumped 86% of American crude oil in 1899, its share had slumped to 70% by 1911. Even Standard's historic strength in refining dipped from an 86% market share to 70% in the five years before the breakup.

The automobile was also radically recasting the industry. In 1910, for the first time, gasoline sales surpassed those of kerosene and other illuminating oils. In 1908, William Durant launched the General Motors Corp., and that same year Henry Ford brought out his first Model T. Auto ownership soon exploded, reaching 2.5 million cars by 1915 and 10 million by 1920. Although Standard Oil of California oper-



STANDARD HAD NO MONOPOLY IN FILLING STATIONS

By the time of the 1911 decision, the trust had already lost its dominance

"I need a 401(k) provider who respects my time."

If yours doesn't,
retire them.



plan ahead.

It's frustrating when you have to call your 401(k) provider three times, talk to four different people, just to get one answer. Not with The Principal Financial Group.[®] When you call us with a question, you get a quick, accurate response from one familiar voice. Someone who is directly accountable for your plan.

Combine this personalized service with our low fees plus an impressive array of investment options — including name brand funds. That's one great value from a company with over a century of financial expertise. No wonder more employers choose us to administer their 401(k) plans than any bank, mutual fund, or insurance company.* So give us a call at 1-800-255-6613. Or contact us at www.principal.com on the Internet. As for your present provider, wish them a lengthy retirement.

get ahead.

Plan Ahead. Get Ahead.SM

thePrincipal[®]

*Financial
Group*

401(k) and Pension • Home Mortgages • Life, Health, Dental and Disability Insurance • Annuities • Mutual Funds

©1998 Principal Mutual Life Insurance Company, Des Moines, IA 50392. *CFO magazine, April/May 1997, Senior Financial Executive Ranking. Products and services offered through Principal Mutual Life Insurance Company (The Principal), its subsidiaries and affiliates. Mutual funds distributed through Princor Financial Services Corporation (member SIPC). Health care products not available in all states.

the first filling station in 1907, the trust was not a pioneer in this area, and the national network of gas stations would be too extensive to be monopolized by any one company.

Those who had seen the Standard Oil dissolution as condign punishment for Rockefeller were in for a sad surprise: It proved to be the luckiest stroke of his career. Pre-

Book Excerpt

RON CHERNOW'S TITAN

cisely because he lost the antitrust suit, Rockefeller was converted from a mere millionaire, with an estimated net worth of \$300 million in 1911, into something just short of history's first billionaire. In December, 1911, he was finally able to jettison the presidency of Standard Oil, but he continued to hold on to his immense shareholdings. As the owner of about one-quarter of the shares of the old trust, Rockefeller now got a one-quarter share of the new Standard Oil of New Jersey, plus one-quarter of the 33 independent subsidiary companies created by the decision. And that did not include the oil shares he had given to the University of Chicago and other recipients of his largesse.

At first, investors did not know how to value the shares of these Standard Oil components, since Rockefeller had resisted a New York Stock Exchange listing. Like many companies in the days before the Securities & Exchange Commission, the old trust never issued prospectuses to shareholders. As one Wall Street publication warned on the eve of trading, the value of the new companies was "the merest guesswork." What quickly grew apparent, however, was that Rockefeller had been extremely conservative in capitalizing Standard Oil and that the split-off companies were chock-full of hidden assets. Two other factors encouraged a veritable feeding frenzy in the stocks. For years, the shares of Standard Oil of New Jersey, the holding company for the trust, had been depressed by the antitrust litigation, but with the litigation ended, they bounced back to a more normal level. And the explosion of the automobile industry created euphoria about the endless growth prospects of the petroleum industry, which had been shadowed for fifty years by warnings of doom.

When trading started on Dec. 1, 1911, the public exhibited an insatiable appetite for the new companies, especially after they declared dividends averaging 53% of the old capital value of Standard Oil stock. As if rejoicing in the chance to tweak trustbusters, investors bid up the shares to insane levels. From January to October of 1912, Standard Oil of New Jersey zoomed from 360 to 595; Standard of New York went from 260 to 580; and Standard of Indiana from 3,500 to 9,500. Thanks to this staggering appreciation, Rockefeller's net worth reached a lifetime peak of \$900 million in 1913—more than \$13.26 billion in 1997 dollars.

As John D. Rockefeller Jr. later explained, his father nev-

er had a billion dollars at any one moment, although more than that passed through his hands. During the years after Standard Oil's 1911 dismantling, the assets of constituent companies quintupled in value. Beyond his business talents, Rockefeller benefited from a large dollop of luck, making more money in retirement than on the job. The soaring fortunes of the Standard companies made it seem as if Rockefeller had outwitted the country again. Newspapers began running daily box scores of his wealth, hardly the chastening sequel Washington had envisioned.

It was hard to convince a skeptical public that the 34 new companies, with their 70,000 employees, would not reconstitute a new conspiracy. Many of the newly independent companies were powerful enough to inspire fear as freestanding entities. Standard Oil of New Jersey remained the world's largest company, second only to U.S. Steel in size among American enterprises and retaining 43% of the value of the old trust.

Five of the newly divided companies stood among the country's 200 largest industrial firms. Since the companies had identical controlling shareholders, it was hard to forego vigorous competition.

For the next decade the divestiture seemed a sham. The Standard companies continued to divide the country into eleven marketing territories, selling the same brand names and competing on prices. It took a long time for former colleagues to view each other as competitors and raid each other's territories. Many critics thought that, to avert complicity, the government should have done one of three things: kept the trust intact and regulate it; force shareholders to take stock in only one of the 34 companies;

or create fully integrated companies that did not need to rely on other Standard companies. Standard of New Jersey, for instance, inherited a vast refining system without the crude to service it, forcing it into close collaboration with its Standard Oil cousins to remedy the imbalance.

It is an enduring tribute to Rockefeller that so many Standard Oil companies prospered during the remainder of the century, controlling a significant fraction of both American and world oil industry. Rockefeller's stepchildren would be everywhere: Standard Oil of New Jersey (Exxon); Standard Oil of New York (Mobil); Standard Oil of Indiana (Amoco); Standard Oil of California (Chevron); Atlantic Refining (ARCO and eventually Sun); Continental Oil (Conoco today a unit of DuPont); and Chesebrough-Ponds, which began by processing petroleum jelly. Three offspring—Exxon, Mobil, and Chevron—would belong to the Seven Sisters group that would dominate the world oil industry in the 20th century; a fourth sister, British Petroleum, later took over Standard Oil of Ohio, then known as Sohio. It was certainly not their intention, but the trustbusters helped preserve Rockefeller's legacy for posterity and unquestionably made him the world's richest man.



A POSTCARD OF JOHN D. AND HIS WIFE, CETTIE

The break-up, ironically, made Rockefeller the wealthiest man of his time

At least my data's safe.

Isn't your propensity to misplace things the reason you meticulously record all your appointments, contacts, to-do list and expenses in an organizer anyway? Well, what if you misplace your organizer? Then where are you? Probably on your way to get a Palm III™ organizer. Because HotSync® technology lets you back-up and exchange information (like e-mail) with your PC so you won't lose your data even if you lose your organizer. There's never an occasion for entering things twice – it's all there, all the time. And with infrared transfer, you can send information and applications to other Palm III users. Thousands of developers are making new applications available every day, and since Palm Computing products are already the fastest selling handheld computing products in history – fewer people are saying,

"I meant to call, but I lost your number." For a Palm III retailer near you, visit www.palm.com

or call 1-800-861-2529.

Palm III

The connected organizer.

PalmPilot™ Professional - \$299*

- Instantly syncs with your PC
- Stores thousands of entries
- E-mail and Internet ready

Palm III Organizer - \$399*

(Includes PalmPilot Professional features plus)

- Infrared Transfer
- Twice the memory
- Applications available from thousands of developers
- Links to Symantec ACT! and Microsoft Outlook 97 included

Optional links (sold separately) available for

- Ascend 97
- F
- GoldMine
- Lotus cc Mail and Notes
- Microsoft
- and more

Palm™ Mail compatible with

- Eudora 3.0.3 or higher
- Lotus cc Mail v 7.0, 6.0, 2.5
- Microsoft Exchange 4.0 or higher
- Microsoft Outlook 97
- and more



U.S. list prices. Modem, connection kit required for Macintosh connectivity. © 1998 3Com Corp. 3Com, the 3Com logo, Palm Computing, and HotSync are trademarks of 3Com Corporation. Palm, the Palm logo, and the Palm Computing platform logo are trademarks of Palm, Inc. or 3Com Corporation. Other product and brand names may be trademarks or registered trademarks of their respective owners. This product is not manufactured by Pilot Corporation or Pilot Corporation of America, manufacturers and distributors of writing instruments.



GOLF

CAN MONEY BUY YOU A LOWER HANDICAP?

How much those pricey, high-tech clubs help your game is unclear

Look who's pitching golf equipment. Callaway Golf Co.'s newest endorser is a celebrity you wouldn't figure on in a million megabytes, er, years: On the first tee, playing out of Double Click Country Club, Mr. Bill Gates...

But having the emperor of high tech tell us, in so many words, that his Callaway clubs are turning triple bogeys into doubles really isn't so far-fetched. Golfers crave high tech—and the higher, the better. You name it, and they'll get in line, hoping some genius holed up in a Southern California lab has designed the antidote for the lame lag putt.

The pursuit of the perfect shot—and the breathtaking prices of some clubs—continues to fuel the golf equipment industry. In 1996, domestic sales of the top 25 clubmakers totaled \$1.6 billion, up from \$1.3 billion in 1995. And there's no end to the array of new models designed to fill weekend warriors with visions of vying for the U.S. Open.

"MAGIC." These state-of-the-art clubs definitely look snazzy, and they make sweet music rattling around in your golf bag. But after you've impressed your pals and paid down your credit card, what do you have to show for your investment?

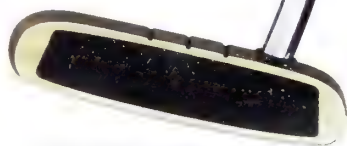
Maybe not as much as you'd hoped. "We golfers believe in magic," says Frank Thomas. "We absolutely convince ourselves that a golf club we've just purchased has totally changed our game, when subconsciously, we know full well that hasn't happened." Thomas ought to know. Since 1974, he has overseen the testing of equipment for the U.S. Golf Assn., the game's governing body.

Working out of a sprawling test center in Far Hills, N.J., Thomas and a staff of 17 evaluate as many as 450 golf clubs and 2,000 balls a year. They reject some 40% of the clubs that are submitted as not

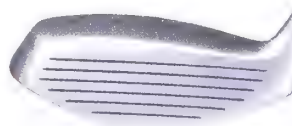
conforming to the rules of golf, though they clearly have no control over the rules of the marketplace. A set of oversize irons with the latest graphite shafts now runs \$1,000. That may not sound like a bargain until you consider that the Biggest Big Bertha—a single club—retails for a cool \$600.

As clubs become more expensive, they haven't necessarily become more effective, notes Thomas. Since 1981, the average men's handicap in the U.S. has improved by less than a half-shot, from 16.8 to 16.6. So what, say golf equipment execs. Newer courses are much more challenging—and that forces up scores. Besides, the USGA has no reliable method of distinguishing the benefits of high-tech clubs from the hodgepodge of variables that go into a golf score.

"Too many factors affect handicaps: a mental attitude that is positive, a swing that is at least remotely effective, and the ability to execute that swing in a way that your mind and emotions don't interfere," says Callaway Golf's 78-year-old founder, Ely Callaway. "And we haven't even talked about the element that affects scoring most: putting." Joe



ODYSSEY GOLF: MANGANESE BRONZE ROSSIE 2 PUTTER, \$145



ADAMS GOLF: TIGHT LIES FAIRWAY WOOD, \$239



MCHENRY METALS: TOURPURE DRIVER, \$586



CALLAWAY GOLF: BIGGEST BIG BERTHA DRIVER, \$600

Teklits
an aly
who tra
golf equip
for Ferris H
er Watts Inc
Baltimore bro
age, downplays
USGA's figures,
Oversize clubs
larger sweet sp
"have made the g
much more enjoy

for the beginning golfer," says Teklits. "He's a lot less likely to whiff on the first tee."

All that proves, counters Thomas, is that "when you pick up a new piece of equipment, it does work for you. You want it to work. You tell yourself it works. And so it works. You've made

**How do you help your
employees who need data
from the mainframe while
working in Windows?**

**We recommend
a sledgehammer.**



There's a barrier that stands between Windows users and valuable, mission-critical information locked away on enterprise-class systems. To your decision-makers and users, this means lower productivity, frustration and loss of revenue.

Enter Software AG Americas.[™] Focused on breaking down these barriers. Streamlining transaction processing, financial and inventory databases to the people who need

access. And making every single employee more productive.

How? With solutions like EntireX[™] Enterprise COM-based middleware that creates a smooth connection from the enterprise to Microsoft[®] Windows. Enabling organizations to leverage IT investments into business solutions.

And EntireX is just one of the solutions from SAGA that can help you achieve breakthrough results.

SAGA

free your information

For more information about SAGA, visit www.sagafyi.com or call 1-888-SAGA-FYI, ext.101-1.

better swing, and the ball goes a little farther. But three or four months later, the club doesn't work anymore. What's changed? The club? The golf course? The laws of physics?"

One thing is certain: There are more golfers, and they're throwing cash around like Lotto winners. Since 1986, spending on greens fees and equipment has nearly doubled. Much of that growth dates back to the early '90s when club design took a revolutionary turn. The landmark year was 1992. Callaway, then a relatively obscure manufacturer, unveiled a funky-looking, oversize metal club dubbed Big Bertha, after a World War I cannon. Today, Callaway's domestic sales surpass that of its next four rivals put together, a stunning rate of growth for a company that in 1991 ranked sixth among clubmakers.

But becoming No. 1 was easy compared with staying on top. Callaway's first-quarter earnings plunged 54% over the same period a year ago as the Asian crisis hit and El Niño drenched California and Florida. Sales in Asia (excluding Japan) have slid 65.6%. And there's talk for the first time that maybe, just maybe, the Big Bertha craze has run its course. "Big Bertha needs a facelift," says Teklits. "Since it was launched eight years ago, the only thing they have done to it is to make it larger."

Knockoffs don't help matters. With their bulbous club heads, they may look like Callaways. And, some might argue, even swing like them. But these clubs, which carry evocative names like Big Brother and Big Smoke, sell for as little as \$130, roughly one-fourth the price of the Biggest Big Bertha.

"VERY SKEPTICAL." Still, Ely Callaway contends that his company will keep succeeding because new technology has been a boon to the casual golfer. Those resisting that idea invite a stern talking-to. "If our clubs didn't assist the average golfer in hitting more pleasing shots," demands Callaway, "then why are we selling as many as we do?" Thomas, at the USGA, doesn't have the answer. He is "very skeptical of 99%" of the pitches on the pages of golf magazines. "If the claim is, 'more distance, great accuracy,' I tend not to believe," he says. "If it's 'slightly better feel,' O.K., maybe. That's so hard to define."

But then, such advertisements aren't aimed at Thomas, a five-handicapper who's looking to shave a stroke or two off his game this summer. In his golf bag, Thomas carries a set of classic blade irons he believes work as well as any on the market today. They're 29 years old.

By Mark Hyman in Far Hills, N.J.

LIVELY BALLS MAKE FOR A LIVELY DEBATE

In the struggle between PGA Tour titans such as Tiger Woods and Ernie Els and the golf courses that challenge them each week, the golfers are winning. And that could be bad news for the game. So say Jack Nicklaus, Gary Player, Raymond Floyd, Tom Watson, and other members of professional golf's old guard.

These Hall-of-Famers believe that major advances in the technology of the golf ball pose a threat to the integrity of the sport. But how? On that point, they don't agree.

Nicklaus maintains that today's golf balls go too far—up to 30 yards farther than the balls he whacked 30 years ago as a hotshot on the PGA Tour. He advocates a controlled-distance ball, designed to rein in the longest hitters.

Watson argues that yardage "isn't an issue." He says that the real problem is that today's golf balls have "gotten straighter." Says Watson: "It's a much easier golf ball to play in adverse conditions. That's where I think we may have crossed the line—in the aerodynamics."

Not everyone, however, agrees that there's a problem. "It's hard to disprove somebody's perceptions, but... the balls I've been watching seem to be doing quite a bit of curving, intentionally or unintentionally," says ABC television golf analyst Frank Hannigan.

WORRISOME STATISTICS. No doubt technology has changed golf balls over the years, especially in just the past few. In a letter to the media promoting Top-Flite balls, Mark O'Meara notes that he was ranked No. 44 in 1995 but won the 1998 Masters after switching to the Strata Tour. "I have to believe my golf ball has had more

than a little to do with my success," he writes. And Top-Flite now offers balls tailored for Callaway and Taylor Made clubs. The steep price—more than \$4 a ball—is one more reason to be wary of water hazards. But do the new balls pose a threat?

Some statistics appear to raise red flags. Take the PGA Tour's driving-distance figures: The current average is 269 yards, the longest ever. From 1993 to 1997, the figure increased every year, from 260.3 to 267.6. "The USGA believes we do have a potential problem in the distance the ball goes. We are looking at these statistics very, very carefully," says Frank Thomas, director of testing for the USGA. Ball manufacturers privately admit they're worried that a crack down is coming.

POOR MEMORY? Yet Thomas is quick to point out that lots of factors potentially affect the distance of a drive. "We know the golf ball is going farther," Thomas says. "The question is why? Is it because of bigger clubs with titanium heads? Is it because of improved agronomy, with fairways being mowed better? Is it because of slight improvements in the ball? Maybe players are simply bigger and stronger."

Even if golf balls are flying farther it's not the 30- or even 50-yard problem that some players fret about, says Thomas. It's about 8 or 10 yards. And maybe stars such as Nicklaus forget how they used to wallop the ball in their salad days. "Jack's problem is his memory," Thomas says. "He forgets that the way people look at Tiger—'My God, look what this guy is doing'—that's the way they used to talk about him."

By Mark Hyman



TOO EASY? Jack Nicklaus, here caddied by Jack Jr., says new balls hit 30 yards farther

SPECIAL ADVERTISING SECTION



The Discriminating Global Traveler





Europe's Palatial Business Hotels

While keeping an eye on rising travel costs, plenty of American executives, from Wall Street to Hollywood, are riding today's prosperity and overnighting at Europe's upscale hotels like the Dorchester in London and Palace in Madrid. Prices are high — \$200 to \$500 for executive singles — particularly at current exchange rates and with VAT levies included. Hotels are so full that corporate rates are often negligible.

But for discriminating corporate travelers with deep pockets, living well on the road makes good business sense in the globalized '90s. Just getting to your hotel via an airport limousine pickup, often provided by luxury establishments, has direct stress-relieving benefits.

If you're cutting a \$100-million deal, are you going to stay in a so-so hotel?

The address — like Carlos Place, Mayfair, in London or Place de la Concorde in Paris — can help set the tone for high-level talks.

Linked with a hotel's prestigious

mix of elegance and efficiency: top-hatted doormen like those at the Four Seasons, but also superbly trained concierges who can snare tickets to top concerts or hot night clubs — to the team with golden keys at the Savoy.

For a traveling executive the return on investment in a fine room can be substantial. Use it for small meetings because it's that large. Save on long-distance taxi rides. Dine at famous restaurants, thanks to the great one — possibly deserving a star or two in the *Michelin* guide — or an elevator ride away in a grand hotel like the Meurice in Paris. And, quite simply, enjoy your surroundings that are in keeping with

a house in Greenwich, Grosse Pointe Winnetka, River Oaks or Santa Barbara.

Virtually all luxury hotels — even ones that are in historic buildings — now offer a full range of high-tech business

address is the quality and quantity of its amenities. Take London, the Number One destination for Europe-bound American executives. At the best establishments, there's a discreet



(one simple
step)

I n t r o d u c i n g

the AT&T

speed dial
feature

The hotels overseas now offer an

incredibly fast and easy way to call back to the States.

The AT&T Speed Dial feature. It makes accessing

AT&T Direct® Service faster and easier than ever.

It's all within your reach.



AT&T

The new AT&T **speed dial** **feature** makes calling back to the States easier than ever.



Now accessing **AT&T Direct**® Service from your hotel room can be as simple as pushing a button. So you're in touch with those back home faster and without having to dial an international access number.



AT&T Direct provides fast connections with the

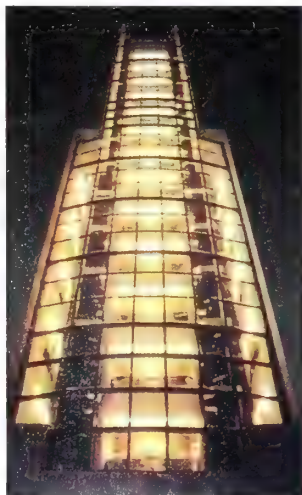
clearest sound quality* on calls back to the States. Always look for hotels that offer the convenience of the

AT&T Speed Dial feature. It's another innovation that makes your life easier from

the world's most powerful network. AT&T.



Available at these fine international hotels:



Aspen Towers Hotel
SUMMIT HOTELS
AND RESORTS
Buenos Aires,
Argentina
Tel.: 541 313 1919



ASPEN TOWERS HOTEL

75 elegant rooms with neo-classical French décor in the heart of the business district. Each room features king-sized beds, jacuzzi bathrooms, safe deposit boxes and air-conditioning. Business center and meeting rooms available. Health club and rooftop pool with fabulous views of the Buenos Aires skyline.



El Panama Hotel
Panama City, Panama
Tel.: 507 269 5000



Hotel

EL PANAMA

The only hotel in Panama with its own convention center. There are 16 meeting rooms of various sizes. The largest can accommodate 700 people. Each meeting room is equipped with laser pointers, overhead projectors, flipcharts, microphones, amplifiers, TV, video and data show capabilities. Simultaneous translation is available.

*Based on 1997 customer preference study compared to other U.S. carriers. Credit card calling subject to availability. Payment terms subject to your credit card agreement. Collect calling is available to the U.S. only



Hampton Inn Monterrey North
HAMPTON INNS
Monterrey, Mexico
Tel.: 528 376 5000

A six-story building with 170 rooms. Located north of the city, 10 minutes from downtown and 25 minutes from the international airport. Two meeting rooms accommodate 60 people each. Dataports in rooms. Fax at front desk. Guests can order room service from adjacent Florian Restaurant and have it to their rooms.



Hampton Inn Monterrey Airport
HAMPTON INNS
Apodaca, Mexico
Tel.: 528 386 3800

New hotel just two minutes from the international airport. The only hotel in the airport area, very accessible to major attractions, surrounded by major industrial parks. Voice mail in every room. Meeting rooms available for up to 120 people. Shuttle service to and from international airport and to nearby companies.



Hampton Inn Galerías Obisado
HAMPTON INNS
Monterrey, Mexico
Tel.: 528 348 1515

A traditional, seven-story structure located in the southwestern area of town. Each room has a two-line phone and dataport. There is a fax machine at the front desk. There are four meeting rooms that can accommodate up to 40 people. Non-smoking rooms and courtesy van available.



Shangri-La Hotel Hangzhou
SHANGRI-LA INTERNATIONAL
Hangzhou, China
Tel.: 86 571 707 7951

387 spacious guest rooms and suites on a lake shore just three minutes from the city center. There are 21 function rooms of various sizes and an auditorium that can hold 500 people. Guests paying full rate receive free airport transfers, laundry, dry cleaning, breakfast, local calls and more.



Shangri-La hotel

HANGZHOU, CHINA



The Westin Surabaya
WESTIN HOTELS & RESORTS
Surabaya, Indonesia
Tel.: 62 31 545 8888

This 418-room hotel offers a variety of accommodations to meet the needs of business travelers. Westin Guest Offices™ provide a multifunction printer/fax/copier, ergonomic chair and speakerphone with dataport. Westin's Executive Club guests enjoy continental breakfast, evening cocktails, separate check-in/check-out and other exclusive privileges.



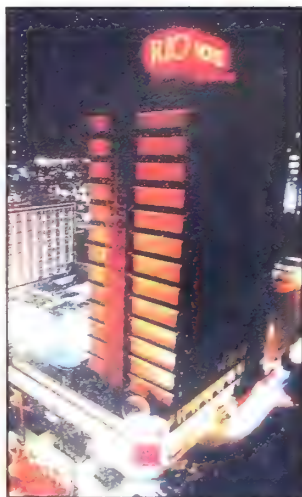
THE WESTIN
 SURABAYA



Holiday Inn Bombay
HOLIDAY INN WORLDWIDE
Mumbai, India
Tel.: 91 22 620 4444

All rooms have a view of the Arabian Sea. Five miles from the city's downtown and international airport. Convenient to business industrial and shopping areas. Executive class accommodations with exclusive lounge. Two conference rooms that hold up to 200 persons. Health club with sauna, steam room, gym and massage.

Holiday Inn®
Bombay

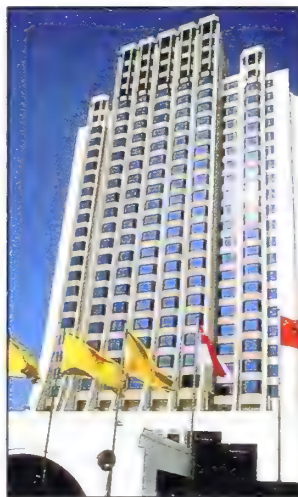


Hotel Rio
Monterrey, Mexico
Tel.: 528 344 9040

Downtown location with meeting rooms that can accommodate up to 150 people. Secretarial services are available. For recreation there is a restaurant, lobby bar, Spectravisión, pool, tennis court and fitness center with state-of-the-art equipment. Free local calls, voice mail and 24-hour room service.



HOTEL RIO



Holiday Inn
Crowne Plaza
Harbourview Xiamen
HOLIDAY INN
WORLDWIDE
Xiamen, Fujian, China
Tel.: 86 592 202 3333

The only high-rise hotel in the downtown area. It is within walking distance of the commercial district and the city's major attractions. The hotel prides itself on the service it offers to the discerning business traveler.

Holiday Inn®
CROWNE PLAZA®
Harbourview Xiamen
 廈門假日皇冠海景大酒店

Look for these and other fine hotels worldwide that have the AT&T Speed Dial feature.

For more information, check out the AT&T Worldwide Traveler Web Site at <http://www.att.com/traveler>

©1998 AT&T. All Rights Reserved.



ools, from private-line voice mail to fax machines in rooms, along with electronic bedside controls for TVs, CDs, curtains, and other furnishings. Some even offer direct access to e-mail and the Internet, without your having to hook up your own laptop. Before booking, phone or fax the hotel directly to ascertain what equipment is available, in case you have a particular need.

"We have to strike a nice balance between high-tech and old-fashioned service," says Ricci Obertelli, who oversees the Dorchester, Meurice, and Beverly Hills Hotel as head of the new Audley Group. "We want to deliver messages electronically, but we don't want to lose the personal touch. We also deliver a printed copy of messages to your door." With that kind of service in mind, here's a selection of some of Europe's classiest business hotels.

BRITAIN/LONDON

The newly renovated **Savoy** is convenient to both the City, London's financial district, and West End theaters and restaurants — and perfect for business breakfasts.

The **Lanesborough**, at Hyde Park corner and near Harrods, has personal and computerized butler service in each room — under the watchful eye of Texas owner and billionaire socialite J. Paul Getty Jr.

For corporate chieftains, there is the **Four Seasons** on Park Lane, where you can hold productive meetings in a plush setting.

There's lots of business buzz at the **Dorchester**, another Park Lane palace, where the Grill Room and Spa are two of the biggest draws.

The refurbished **Ritz**, now owned by



the Mandarin Group is known for its tea service and central location.

For working out with a penthouse view — and prime-cut steaks in its Rib Room — the **Hyatt Carlton Tower** in Cadogan Garden.

EDINBURGH

Where else in Edinburgh but "the Caley" — the nickname for the Victorian railway hotel converted into a modern palace. You'll find the **Caledonian** at one end of Princes Street, the main stem in Scotland's city of financiers and lawyers.

BELGIUM/BRUSSELS

For decades a winner, the smoothly run, well-located **Brussels Hilton** is where American visitors meet European Community officials and executives, often over lunch or dinner at the Maison du Boeuf.

The classy, ancient-looking **Amigo** (though built in the 1950s), decorated in silks and brocades and blending with the stonework of the nearby Grand 'Place', one of Europe's great tourist sights.

The splendid **Conrad** (the over-



seas wing of the American Hilton chain), opened in 1993 and targeted at upscale business travelers who like spacious rooms with three phones.

The **Sheraton Towers**, exceptionally luxurious as the hotel that long put up ITT executives visiting the company's European headquarters in Brussels.

FRANCE/PARIS

Right on the Place Vendome, where investment-banking offices occupy landmark buildings, the **Ritz** is the plus ultra of top service — with a world-class pool and spa for after-work relaxation.



Fronting on the Rue de Rivoli with sumptuous guest rooms overlooking the Tuilleries Garden, the Sultan of Brunei's **Meurice**, which has hosted everyone from the Duke and Duchess of Windsor to Salvador Dali and Plácido Domingo.

The executive-oriented **Bristol**, on the fashion-packed Rue Faubourg St. Honore, sporting a *Michelin* one-star restaurant for business entertaining and an enclosed pool in a yacht-style setting on its rooftop.

The opulent **Hotel Crillon**, facing the Place de la Concorde, Paris's hub, and next to the U. S. Embassy where you may be doing business.

On the Rue de Rivoli, the Intercontinental housed in a very historic building — with a multinational business clientele.

For Seventh Avenue and other fashion-industry workaholics, the incomparable **Plaza Athenee**, just off the Champs-Elysees, replete with colorful awnings and other French touches that make it so chic.

Also within steps of the Champs-Elysees, the small, smartly renovated **Lancaster** with cool charm.

Near the Arc de Triomphe on Avenue Raymond Poincaré is the **Westin's Demeure Le Parc**, another boutique hotel loaded with upscale

amenities and business services, plus superchef Alain Ducasse's *Michelin* three-star restaurant.

GERMANY/FRANKFURT

A favorite of international bankers — in a big financial town — the old-fashioned, formal **Steigenberger Hotel Frankfurt Hof** located downtown.

The Kempinski chain's classy **Gravenbruch Kempinski**, a 16th-century manor house in parkland as convenient to the airport as it is to downtown "Bankfurt."

Twenty minutes from downtown in a rich suburb, the **Schlosshotel Kronberg**, where Queen Victoria's eldest daughter lived, now a hotel with one-of-a-kind rooms and a baronial bar and restaurant.

BERLIN

The beautifully restored, turn-of-the-century **Kempinski Adlon** — the newest showcase on the fashionable Unter den Linden in the huge business city that will soon replace Bonn as Germany's capital.

DUESSELDORF

The suave, opulent **Breidenbacher Hof**, where many American CEOs and upper-echelon executives stay in the "capital of the Ruhr."

HAMBURG

At the top of worldwide rankings of hotels for its 19th-century architecture, kingly rooms, fine dining and huge wine cellar, the **Vier Jahreszeiten** (meaning Four Seasons) overlooking downtown's Binnenalster (inner lake).

MUNICH

A top address if you're doing business

with BMW and other major companies, the **Kempinski Vier Jahreszeiten** with a commanding position on Maximilianstrasse, Munich's Fifth Avenue.

The small, stylish **Rafael** with its much-acclaimed Mark's Restaurant — a hotel where Britain's Prince Charles stayed in 1995.

ITALY/MILAN

A great hotel patronized by Fiat's Agnelli and other industrial captains, the **Sheraton's Principe e Savoia** — a dukedom all to itself.

A fashionable hotel in a restored 14th-century monastery with most rooms facing a courtyard — that's the popular **Four Seasons**, managed by the business-oriented chain.

ROME

A new star among the capital's constellation of superior hotels, the **Hotel Eden**, operated by Forte Le Meridien and patronized by Wall Street wheelers and dealers — and its La Terrazza has a





YOU DON'T HAVE TO BE A LEGEND TO BE RECOGNIZED FOR YOUR TRAVEL.

In the spirit of those who first conquered the airways, Trans World Airlines will introduce Aviators™ on May 1. Aviators is the frequent flyer program recognizing that same spirit in today's travelers. Now you'll find new ways to attain privileged status. As well as many travel awards easier to achieve. You'll even find bonus miles based on fares paid. With Aviators, you don't have to be in the history books to be appreciated for the time you spend in the air. To join call 1-800-221-2000.

WE WANT TO BE YOUR AIRLINE.™

TWA



A circular photograph showing a view of a snow-capped mountain peak, likely Mount Everest, seen through the porthole of an airplane. The sky is hazy and yellowish, and clouds are visible below the mountain.

AMERICAN
LIBRARIES

Cards

the window seat?

The more you travel, the easier it is to forget that a flight can be a breathtaking experience, not merely a means of reaching your destination.

But at Hyatt, we haven't forgotten that every journey should be an uplifting event. Even after you've landed.

That's why we fill our hotels and resorts with so many opportunities to broaden your horizons. Unique restaurants in the sky where you can dine with sparkling cities at your feet.

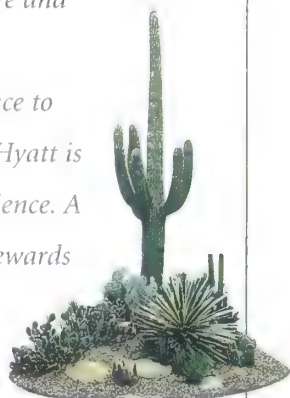


Meeting rooms that free your imagination by opening to grand panoramas. Lobbies that greet you with spectacular architecture and dramatic vistas.

Instead of merely a place to stay at your destination, a Hyatt is a destination in itself. A place to experience. A window seat, if you will, that always rewards you with a fresh, new perspective.

So ask to stay with the people of Hyatt. We think you'll like what you see.

For reservations, contact your travel planner or call Hyatt at 1-800-233-1234. Or visit us at www.hyatt.com



— Feel the Hyatt Touch® —

real star from *Michelin*.

High on a hill with panoramic views of the Eternal City, the newly renovated **Cavalieri Hilton** — with a courtesy shuttle to downtown offices.

NETHERLANDS/AMSTERDAM

Ten minutes from downtown, the **Amstel Inter-Continental**, a modernized 1867 jewel at waterside with regal rooms (occasionally occupied by the Dutch royal family) and a splendid restaurant.

SPAIN/MADRID

With its Belle Epoque decor, glass dome over its lounge and superb location — near the Parliament, the Prado and offices — the **Sheraton's Palace**, made to order for traveling executives with a heavy agenda, entertaining included.

SWITZERLAND/GENEVA

Oozing money and prestige, the **Victorian Le Richemond** where executives can rub elbows with celebrities in its *Le Gentilhomme* restaurant, an oasis of caviar, brandy, and cigars.

ZURICH

Down by the lake, at the end of the sophisticated *Bahnhofstrasse*, the **Baur au Lac**, burnished and reeking of Old Money, Swiss banker-style — with the Grill Room the place in town for an important business lunch.

Note: You'll get the best rooms and suites in the above hotels by using a top travel agent or phoning or faxing directly rather than booking through '800' numbers. Some European luxury hotels still resist providing corporate rates, but usually do offer attractive packages, particularly for weekends.



A Successor To The Concorde?

For dealmaking — at hyper speed — nothing beats British Airways's or Air France's Concorde. With mergers and acquisitions thriving, executives in London and Paris continue to take the early-morning, 1400-mile-per-hour Concorde to New York, wrap up a nearly prearranged negotiation on Wall Street and return back home — on a Concorde — all in the same day. An unusual feat, but doable and typical of how supersonic flights can help executives do business faster.

Two decades old, the Concorde is still the benchmark for executive luxury in flight. The 100-passenger, cigar-shaped tube with delta wing crosses the "pond" so fast — in three hours plus — that passengers are almost at their destination by the time they fully settle in. It's enough to eliminate almost all jet lag.

Some passengers have described the Concorde as a "first-class restaurant in the sky." After the elegant preliminaries, from special checkin to personalized service in the Concorde's own lounges, pas-

sengers board. And soon they are treated to an elaborate repast, from caviar and champagne to fish or meat entrees, washed down with vintage Burgundies, Bordeaux or California wines — or simply the finest natural spring waters. Your seatmate is as likely to be a celebrity as another executive.

Even though the operators of the Concorde see a long future ahead for their prize possession — the modest number of takeoffs and landings minimizes metal fatigue — they are eying with interest a new generation of jets now on the drawingboards in the U.S. and Europe.

NASA's High-Speed Civil Transport program — the formal name for a replacement for the Concorde — is some five years into a program to deliver a successor to the Concorde by 2010. With three times the payload — some 300 passengers — and a speed only 200 miles faster than the Concorde, the SST of the 21st century could cut travel time in half between, say, L. A. and Tokyo thanks to its long range.

99 Continental Airlines Inc.

WE THINK OUR FREQUENT FLYER PROGRAM IS THE BEST IN THE INDUSTRY. APPARENTLY, SO DO YOU.

Continental's OnePass frequent flyer program
voted #1 by the people who fly the most.

Program of the Year. Best Elite Level Program. Best Overall Customer Service. Best Program Newsletter. . . . Sound a bit repetitive? Well, when the readers of *InsideFlyer* magazine awarded 1997's coveted Freddies, Continental's OnePass frequent flyer program was a name that came up again and again. . . . Best Web Site. Industry Impact Award for CO.O.L. (Continental On-Line) Travel Specials. . . .

In fact, OnePass won the most Freddie awards in 1997 and has won more awards than any other program in the 10-year history of the awards. We don't spend our time thinking about trophies, so the honors haven't gone to our heads. But we're sure proud of what they represent. To enroll in OnePass, call 1-800-523-FARE or visit our website

at www.flycontinental.com. (The 1997 Freddie awards are sponsored by *InsideFlyer* magazine, MCI, and American Express SkyGuide®)



Continental Airlines
OnePass

Work Hard.
Fly Right.

It would be a remarkable fly-by-wire jet with the captain and flight crew guiding the plane without a windshield to see through — but with super-sophisticated electronic instruments. The main players, at present, are Boeing (fuselage), Pratt & Whitney and General Electric (engines) and Honeywell (instrumentation).

Closer to takeoff — with a working model due by 2003 — is Europe's Airbus 3XX. Where the follow-on to the Concorde would cater to the elite market, the 3XX will add much-needed capacity to the rapidly growing mass market. Big? The Airbus, as now envisioned, will be a mega-jumbo jet that could carry more than 500 passengers in a three-level configuration. Airlines such as Virgin Atlantic may well include a computer business center and a workout room in the A3XXs they might order.

The Private World of Elite Frequent Flyers

On a Tuesday in early March the vice-president of marketing at a consumer-products company had to rearrange the rest of his week's itinerary while driving back to Houston after making a sales call in Galveston. He picked up his cell phone in his Dodge Stratus, phoned an "inside" number at Continental Airlines and — with a "Hi, Sally" to the person at the other end — gave her his OnePlus number and got his flights rescheduled and seats upgraded. "Done," he said to his less-traveled teammate, smiling. "That's one of the perks when you're a heavy traveler like me."

How did he get this special treatment? He's a card-carrying **Continental Gold Elite** flier, logging nearly 150,000 miles a

year — all domestically, with a multi-city trip almost every week. He's also an **American Platinum** member with all the special privileges American Airlines can bestow on a top customer. Altogether, he has about one million miles apiece in the frequent-flier programs of those two airlines. For that investment by his company he gets treated royally.

Nationwide, there are several hundred thousand so-called elite members of frequent-flier programs whom the airlines coddle as their best customers. While their trip schedules are grueling, the perks are prestigious and separate the men and women from the boys and girls who do grunt work out on the road.

Allowing for variations from one airline to another, the extras bestowed on the elite include:

- Double or triple mileage earned on a flight segment.
- Special checkin and baggage desks at some airports.
- First call on seats if there's a waiting line for an overbooked flight.
- Top treatment by partner airlines.
- Bulletins, mailed or e-mailed, on changes in flight schedules, promotional fares on new routes and discounted vacation packages.
- Waivers on blackout dates when booking "free" trips.
- Awards not subject to capacity controls (seat limits for "free" passenger).

How do you get elevated to elite status and become — say — a **Delta Medallion**, **Northwest Preferred** or **USAir Priority Gold** member?

It can be as simple as making one round-trip between New York and Singapore in business class. Suddenly,



*...frequent flyer status
qualifies for first-class seating
...members who can
pick and choose among
the world's best hotels
and resorts.*

you've made your 25,000 minimum miles to qualify for membership in the Northwest Preferred or **United Premier** programs.

Fly still more, and you can move higher in the hierarchy. Continental and Delta, for example, have three levels of elite fliers with more bonuses and perks as you enhance your status. (Airlines have even super-elite levels for super-frequent fliers, which their membership handbooks don't describe.)

What's in your mileage bank, at any of the upper levels, will be enough for free trips to exotic vacation spots, here and

The spectacle of Hong Kong
with the excitement of Kowloon.

It must be Shangri-La



Shangri-La, Hong Kong Tel: (852) 2721 2111 Fax: (852) 2723 8686
For reservations, call your travel consultant or USA & Canada toll-free: 1 800 942 5050. Internet: www.Shangri-La.com



Kowloon Shangri-La

HONG KONG

ANGKOR • BANGKOK • BEIJING • CHENGDU • GUANGZHOU • HANGZHOU • HONG KONG • KUALA LUMPUR • MACAU • MANGALAY • MUMBAI •
PENANG • QINGDAO • SHANGHAI (MID 1998) • SHENYANG • SHENZHEN • SINGAPORE • SURABAYA • TAIPEI • VANCOUVER • WUHAN (END 1998) • XIAN • YANGON

abroad, with your family—all in business or first class. At that point, diehard fliers easily qualify as discriminating travelers who can pick and choose among the world's best hotels and resorts.

Flying Bedrooms

Business travelers with long memories may remember the double-decker cabins on Pan Am's Clipper Ships. They were roomy enough to include what was then simply a sensible feature: beds for getting a good night's sleep on transatlantic runs.

In the 40 or so years since the introduction of the Boeing 707 and other jets, first-class seats—the most commodious of any on a plane—have been a study in the art of reclination. Back, back still farther they've gone as major airlines have tried to make sleep easier—just short of the full horizontal position. Even the finest foods and wines haven't quite equaled the joy of having something approximating the comfort of a good hotel bed on a long haul, transatlantic or trans-Pacific.

Now, at last, the bedroom in the sky has arrived with the introduction of first-class seats that convert—presto!—into flat, cushioned beds. British Airways and Air France were the first to make room for fully reclining seats, recently followed by Lufthansa. Other

airlines, particularly ones with highly competitive transatlantic and trans-Pacific routes, are in the midst of taking out seats to make room for the mini-bedrooms.

The first-class sections have different locations, depending on the airline and the type of plane. Some, following tradition, are in the nose; others on older 747s occupy quarters in the small upstairs section. But whatever the configuration, from slanting (like diagonal parking) to straight alignment, all the new beds aloft have separators that can be raised to provide a modicum of privacy.

First-class tickets, of course, aren't modestly priced—it's \$9,430 round-trip between Chicago and London and, as another example, \$9,622 round-trip between L. A. and Paris. But the new refinement of a bedroom in the sky hasn't inflated first-class prices. And for executive travelers who rack up tens of thousands of miles in frequent-flier programs, first class is first-rate because it's a reward for a lot of grueling life on the road.

Keeping Fit At City Spas

In a recent Hyatt Hotels and Resorts survey of 500 corporate travelers who



made at least three business trips a year, 67% said they found it "hard to stay on diet when traveling," 61% tended to eat "less nutritious foods" and 35% went to "a health club at least once a day."

Put a spin on the health-club concept, long a fixture in America's pursuit of well-being, and you have the new and exciting boomlet in spas across the nation and, in fact, in major business centers abroad. Sportsmedicine massages. Loofah scrubs. Herbal wraps. Aromatherapy (fragrant oil treatments). Thalassotherapy (sea water and seaweed treatments). Even acupuncture. When you talk about these treatments—and their sensational success in reducing stress—you're in a world well beyond free weights and treadmills. And be prepared for sizable out-of-pocket expense: such as \$75 for a massage, \$75 for a body polish, \$80 for a mud mask and \$150 for sea flour contouring.

In the U. S. alone there are now some 600 so-called day spas, which in most cases cater to people on a fast track. You can get assistance in locating just the right one for you by contacting **Spa-Finder** (888/255-7727, www.spafinders.com) a booking agency that knows what each of the hundreds of different spas in its network has to offer. Or you can simply ask your hotel concierge



More space.
Our new First and Business Class.

Personal space. Having more to claim as your own is especially valuable when you travel. So, as part of our new First and Business Class, we're adding more space between the seats on most long-distance flights. Up to 50% more in First Class, and up to 20% more in Business Class. With room to relax, business travel becomes infinitely less stressful. And less stressful travel is exactly what people have come to expect from Lufthansa.



Lufthansa



STAR ALLIANCE
The airline network for Earth

Fly on Lufthansa or our global partner United Airlines and you can accrue or redeem miles in either Lufthansa Miles & More® or United Mileage Plus®, in accordance with the terms and conditions of the programs.
www.lufthansa-usa.com

for a recommendation.

In New York, for example, one of the best facilities is the Susan Ciminelli Day Spa in Bergdorf Goodman's penthouse. In San Francisco, Mister Lee, located in a three-story Victorian house on Nob Hill, is a good bet. So are Elizabeth Arden's Red Door Salons in Chicago and Washington, D.C.

Many of the city spas are no farther away than your own hotel. Four Seasons, Hilton, Hyatt, IIT Sheraton, Marriott, Renaissance and Ritz-Carlton are all providing—or building—spas for their executive traffic.

If you're choosing your hotels partly because of their health facilities, here is a sampling of some first-rate candidates—upscale hotels with spas (often managed by an outside firm) and sports facilities.

ATLANTA: **Four Seasons.** Health club, massages, steam room, whirlpool, sauna, nearby golf and tennis.

BEVERLY HILLS: **Peninsula.** Full fitness center and spa, pool, sauna, steam room, facial and body treatments, massages.

BOSTON: **Ritz-Carlton.** On-site fitness center. The more elaborate Le Pli Spa is a block away.

CHICAGO: **Ritz-Carlton.** Spa, sauna, full fitness center. **Fairmont.** Spa at the Athletic Club Illinois Center.

DALLAS: **Crescent Court Hotel.** Mind/body wellness center plus a complete spa, 30 exercise classes. **Four Seasons Hotel and Resort** (in suburban Las Colinas). Pools, spa, tennis, golf. **Wyndham Anatole** (formerly the Loews Anatole). Huge spa and extensive sports facilities.

HOUSTON: **Luxury Collection Sheraton** (formerly the Ritz-Carlton). Health club, massages, golf.

MIAMI: **Doral Golf Resort & Spa.** Full range of spa facilities.

NEW YORK: **The Peninsula** (rooms

closed for renovation). Spectacular penthouse spa (open). **Drake Swissotel.** An exclusive spa with facials, wraps and personal training.

PHOENIX: **Marriott's Camelback Inn Resort, Golf Club & Spa.** Full spa. **The Phoenician.** The Center for Well-Being. **Pointe Hilton At Squaw Peak.** The Toca Sierra Spa and Salon.

SAN DIEGO: **Hilton Beach & Tennis Resort.** The Villa di Lusso Spa. **La Costa Resort & Spa** (in Carlsbad). Spa treatments, golf, tennis.

SEATTLE: **Four Seasons Olympic.** The Gene Juarez Salon & Spa.

WASHINGTON, D.C.: **Omni Shoreham.** Fitness center, outdoor pool, hiking, jogging, tennis.

Among the best spas abroad for business travelers:

BANGKOK: **Oriental.** Fancy standalone spa, largely in teak woods, a three-minute boat ride across the Chao Phraya River from the hotel.

GENEVA: **Le Mirador.** Europe's first non-smoking luxury spa—a half hour from Geneva—with panoramic views of the lake and Alps.

LONDON: **Berkeley.** Roman-style rooftop spa. **Dorchester.** Elaborate luxury spa. **Hyatt Carlton Tower.** Top-floor workout rooms and spa.

PARIS: **Ritz.** Aristocratic spa with pool. **Royal Monceau.** Chic spa downstairs.

One measure of the new popularity of spas: The seven-year-old International Spa & Fitness Association now has 830 members—with Jane Segerberg of Sea Island's The Cloister as president.

The Corporate Carriage Trade

Survey after survey has proven that surfing the Net and booking elec-

tronically are no substitute for a good travel agent's advice and assistance—and you are choosy about how you fly and where you stay.

That's particularly true for discriminating corporate travelers who want the best value for their money.

American Express and other large high-profile travel companies have plenty of resources for solving travel problems. What you get from them in many cases depends on how much you put into your own analysis of what you really want and how well you communicate your needs to them.

The same could be said when dealing with even the best of the smaller agencies. If you're having trouble connecting with a good agent, contact the **Institute of Certified Travel Agents** (800/542-4282, 617/237-0280, www.icta.com), a non-profit organization that "certifies" agents with five years' experience, or the **American Society of Travel Agents** (703/739-2782, fax 703/684-8319) whose ASTA symbol is on the door of most of the nation's thousands of travel agencies.

For personal attention from a seasoned agent, there is no better helpmate than **API Travel Consultants**, a top-flight consortium of some 200 travel agencies.



Blue-chip Business Travel

Some travel agencies are true experts in various niches of business travel.

One of the best is World Travel Specialists, an API affiliate run by Paul A. Metselaar, which caters to "high-end travelers" who work for blue-chip law firms, banks, and ad agencies.

"They're among the most demanding travelers in the world," he says. "They have specific requirements and frequently change plans."

"We had a call last week from a law partner who wanted to play squash between depositions on a trip to London. We had to find someone at his particular playing level. And we did," adding unfazed, "He ended up canceling."

In another recent crunch Metselaar got a call from an investment banker who was about to embark on a cruise with his wife. He had forgotten his tux, so World Travel had to find one his size and deliver it to him at the pier.

What do the agency's clients end up paying for travel? "Our usual air ticket price is in excess of \$700," says Metselaar,

against a business-travel average of around \$400.

Now that executives attach leisure breaks to business trips, a trend Metselaar thinks is getting bigger and bigger, how much does the corporate upper crust spend for a vacation? "About \$10,000 for two," he says.

Where To Get A Real Martini In London

Many business veterans of the London drinking circuit can recall that the best martini they ever had in the British capital was the one they mixed after they apologized to the bartender and asked, "Do you mind if I make my own?"

You see, Brits have never understood the American cocktail — a kind of generic slam at our national pre-dinner indulgence. "What are these strange concoctions?" they'll ask. To make matters worse, some Brits, like their continental rivals, think a martini means a few ounces of dry or sweet Italian Martini & Rossi vermouth.



To obfuscate the whole martini ritual in London, add the problem of vodka vs. gin. A gin base is essential for a pure and traditional martini. But what American martini connoisseurs now like is a variant white liquor that is somewhat tasteless and bears no resemblance to gin beyond color — namely, vodka. Tell that to a

sip a martini is in a hotel.

For a general manager of a high-profile London hotel to receive a complaint about a martini is tantamount to giving the bartender a pink slip. In a few cases, the hotels now have American expats or “bartenders with international experience” minding the store to ensure compliance: a whiff of dry vermouth, a superior vodka like Absolut, a twist of lemon (in the glass or on the side) or olive, and a martini glass pleasantly iced.

The only drawback is the nearly prohibitive price of a London martini (or almost any other cocktail) at today's exchange rate. Double the American price, and you'll be close.

One of the earliest masters of this art form was the bartender at the American Bar off the lobby in the **Savoy Hotel** (on the Strand). And that wateringhole is still a great repository of martini-making lore. The going rate is \$15.75.

Another hotel heavily inhabited by American travelers who know a martini when they sip one is the **Stafford Hotel** (in St. James's Place), a cozy, picturesque retreat with an American Bar wallpapered with sports and collegiate caps, bunting and photos. In the same league is the St. George's Bar at **Brown's Hotel** (Albemarle Street off Piccadilly), which produces a thoroughly Americanized martini despite its reputation as the perfect setting for 4 p. m. tea and scones. Both hotels price their martinis at about \$12.

For more action while indulging, head for the hotels along Park Lane. Drop in at the swingin' Bar at the **Dorchester Hotel**, where there's live music to accompany a very mean martini. Down the avenue is the **Hilton on Park Lane's** penthouse Windows on the World — with a panoramic view of Hyde Park and memorable martinis. At the

Four Seasons (near Hyde Park Corner) you can get a good martini anywhere on the premises — even through room service. Park Lane cocktail prices. Mostly in the rarefied \$15 category.

Here are some other noteworthy American-oriented hotels where the martini, in its world-class form, thrives: the Hyatt Carlton Towers, London Marriott Grosvenor Square, May Fair Inter-Continental and Sheraton's Park Lane and Park Tower.

Designer and restaurateur Terence Conran's string of hot bistros, from Quaglino's (16 Bury Street near Piccadilly Circus) to Le Pont de la Tour (on Butler's Wharf near Tower Bridge) are adept at concocting American martinis — if only to keep customers tranquilized while waiting for a table.

La Gavroche (43 Upper Brook Street near the U. S. Embassy), a temple of haute cuisine, would hardly survive without producing a superb dry martini.

If you're invited for a drink to one of London's men's clubs, like White's, Boodles or Brooks's or the Travelers, go British and have a malt Scotch or pint of bitter — or tea. An American martini would be sacrilegious.

The text for this special advertising section was prepared by Worldwide Communications, Inc.



British bartender, and it's like throwing a spit ball to a batter.

But it's not quite that bad these days — with almost four million Americans visiting London each year and, in the process, providing London bartenders with a bit of martini education, if not a frown if the mixing is botched. Not a little help has come from James Bond who has globalized the martini in film after film with an infidel's touch (“Shaken, not stirred”).

But the real impetus for a fundamental improvement in the London model of the American martini has come from sheer economics: most luxury hotels — and even less pricey ones — depend on American corporate travelers for roughly 15% to 40% of their business. And the bulk of those Americans come from the East Coast, particularly New York, and the West Coast, mostly L.A. — territories where drinking a martini has more cachet than downing a flute of Dom Perignon. Besides, with London's drink-ing laws so unruly, the only sure place to

WORLDWIDE ADDRESS DIRECTORY

AT&T

www.att.com

Continental Airlines

www.flycontinental.com

Hyatt Hotels Corporation

www.hyatt.com

Lufthansa German Airlines

www.lufthansa-usa.com

Shangri-La Hotels & Resorts

www.shangri-la.com

TWA

www.twa.com

US Airways

www.usairways.com

ENVOY
CLASS
OF EUROPE



CHOOSE ENVOY CLASS AND YOU
WILL BE VERY, VERY COMFORTABLE WITH YOUR DECISION.

In Envoy Class, you'll relax in sleeper-quality seats that recline up to an industry-leading 155 degrees. Enjoy First Class-style dining. And choose from 48 hours of programming on your own in-arm video screen. Best of all, Envoy Class is available at no more than a standard business class fare. Experience this premium service on flights to Rome, Paris, Madrid, Frankfurt, Munich, London and Amsterdam. Call your travel consultant or US Airways at 1-800-622-1015.

 **U.S AIRWAYS**



WE MOVE IDEAS TO FARAWAY PLACES IN MANY DIFFERENT WAYS

IT'S
NO tall tale. We're expanding the capacity of our data network to 100 times the size of today's Internet. We have more than 21 million telephone lines in the U.S. We even provide paging services in Beijing. We're GTE. And we're more than just a local telephone company. We're a local, long distance, wireless, video, Internet and directories telephone company. We move ideas many places, in many ways. Where can we take one for you?

GTE
PEOPLE
MOVING
IDEAS



STRATEGIES

AIR BAGS ARE INFLATING TRW

auto parts unit is a drag on the whole company

Lights flash and an alarm blares. Inside a massive room at a TRW Inc. test facility north of Detroit, two crash-test dummies sit wired to the front seats of the skeletonized of a Ford Explorer. With a red-*ding wham!*, an air-pressure ram-*pl*ks the test sled. In less than the of an eye, air bags pop open to the dummies. Data from high-speed cras- film- ing the scene should help develop safer air bags, which it use to beat back ever-tougher rivals. least that's the way it's supposed work. But like its crash-test dum-*my*, TRW is getting knocked around y savagely in air bags these days. e the Cleveland-based conglomerate to apply its vaunted technology— ed from work with military satel- and lasers—to make more intelli- air bags and other auto parts, car- anies today are more interested in ms that cost less. Price pressure become brutal in a business that

TRW practically invented 20 years ago, slicing margins in what was once a rich gravy train. Drivers'-side air bags that used to cost \$100 now go for \$45.

With air bags accounting for about 30% of TRW's \$10.8 billion in revenues last year, that has sliced returns for the entire company. Operating profits in car parts—60% of sales overall—have slid 9% in the past six months. The result: Despite a thriving defense and space business, TRW's net income rose just 9% in the first quarter, to \$129 million. Company executives figure sliding air-bag margins trimmed net by \$19 million.

TOO STODGY? Worse, analysts and competitors say TRW is losing ground in the price war. TRW disputes this, but Analyst Kenneth Blaschke of B. T. Alex. Brown Inc. in San Francisco says its air bag share peaked at 36% in 1996 and could dip to 26% next year. Nibbling away at TRW and No. 2 Autoliv of Sweden are Breed Technologies Inc. and newcomers such as Takata Corp. of Japan.

CRASHPROOF? *Dummies are readied for a test at a TRW lab in Michigan*

After TRW's annual meeting on Apr. 29, President Peter S. Hellman promised that if some car-parts units didn't improve margins, they could be sold. But air bags were excluded. Chief Executive Joseph T. Gorman, 60, believes TRW is positioned to ride out the storm. Gorman expects margins to pick up again with increased sales of side-impact air bags, which Ford Motor Co., TRW's largest air bag customer, will offer on 1999 Cougars. The company has high hopes for "smart" bags with sensors that inflate to match a passenger's weight or position in the car. "Our hope is that we can further distinguish ourselves from our competition," Gorman says. "That, at the end of the day, is how you get more price."

Wall Street appears unconvinced. Some institutional investors have sold blocks of shares, most notably Putnam Investments. TRW's stock price of 53 is 13% off its peak of 60% last October. While the stock beat the Standard & Poor's 500-stock index for the five years ended last May, since then it has badly trailed both the S&P 500 and the S&P SuperCap Auto Parts and Equipment indexes.

Critics wonder if Gorman's team is too stodgy to fix the parts unit. Some suggest it's time to spin it off from defense—especially as consolidation sweeps the parts industry, capped by Dana Corp.'s \$3.4 billion deal to buy Echlin Inc. "They're plodding along. Why not

ACME INDUSTRIES

— DIRECTORY —

EXECUTIVE OFFICES	14TH FLOOR
SALES & MARKETING	13TH FLOOR
IT DEPT	12TH FLOOR
IT DEPT	11TH FLOOR
IT DEPT	10TH FLOOR
IT DEPT	9TH FLOOR

It will grow your business in more ways than one.

Get ready to staff up. Most enterprise software is so complex, even small business changes require big help from the IT department. Say you open a new office. Got to call in the programmers. Move into a new market, call in the programmers. Acquire another company, call in the programmers. You even need programmers just to rearrange your users' screens.

Thankfully, there's one way to avoid being overrun by technology. J.D. Edwards enterprise software. The solution that's so much simpler, business managers can very often make changes all by themselves. Only J.D. Edwards neatly separates your business applications from your technology. So adapting to change is easier. Modifications are easier. Your IT people get back to doing what they do best. And you can use those extra offices for staff that will really grow your business. That's how enterprise software ought to be. To find out more, call 1-800-727-5333 or visit www.jdedwards.com.

JDEdwards
Enterprise Software

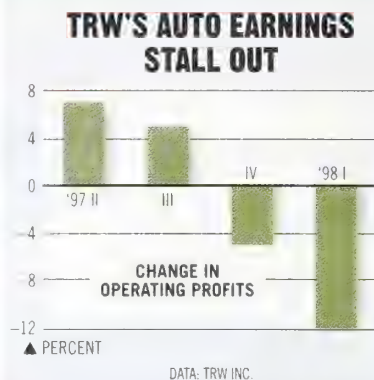
How it ought to be

The Corporation

get rid of one or the other?" says analyst Eli S. Lustgarten, of Schroder Wertheim & Co. in New York.

It's not the first time Gorman has heard that argument. A familiar face in Washington, D.C., where he has worked to promote free trade and academic improvement through the Business Roundtable, Gorman says similar gloom surrounded the defense side when the cold war ended. TRW cut back two-thirds of its defense workforce and narrowed its focus. Today, space and defense—which contributes 40% of overall revenues—is soaring. In the past six months, the group's operating profits rocketed 43%, to \$114.7 million. The company is ramping up for such exotic projects as a \$1.5 billion X-ray telescope set for launch later this year. And in a move to tap a rising commercial market, it paid nearly \$1 billion last year for BDM International Inc., a leading supplier of computer systems to government and business.

TRICKLE-DOWN. Gorman argues there's a potent trickle-down effect from the rich pool of 17,000 engineers and scientists at TRW's sprawling Space Park in Redondo Beach, Calif. Some of the electronics for air bag sensors and electrical steering modules come from advanced satel-



lites. Yet customers and competitors don't see that TRW's space-age glitz gives it much of an edge. "There's not a huge advantage for TRW to have this huge technology center. If so, it's not reflected in their electronic crash-sensor products," says Charles J. Speranzella, vice-chairman of Breed, based in Lakeland, Fla. Breed bought AlliedSignal Inc.'s air bag business last year and has a deal to make sensors with Germany's Siemens. Breed is slashing costs to stem losses but has picked off some of TRW's market share.

As air bags increasingly become a

commodity, customers add that there's not much difference among them. "It's really hard to say if one air bag supplier is better than another," says Priyanka Prasad, a safety engineer and air bag expert at Ford. Auto makers also have been slow to commit to some of TRW's other high-tech parts. Take electronically assisted steering columns. TRW says they have fewer components than hydraulic steering, can be programmed to make steering more responsive, and can save up to two miles per gallon. But carmakers and competitors say there's no one knows what would happen to a driver who loses electrical power. Besides, it's expensive to get the entire industry to switch parts and serve networks over to electronic steering. While TRW will start installing a hybrid unit on Opel Astras in Europe later this year, it has yet to land a U.S. order.

Gorman says TRW can afford to wait for those technologies to mature. As he believes that when the smoke clears from the great air bag smash-up, TRW will be stronger than ever. Investors who have stuck with him will have to hope he's right—otherwise, they could be the ones left looking like dummies.

By Peter Galuszka in Cleveland

Invest wisely by first looking at all the options (and stocks, and futures...)

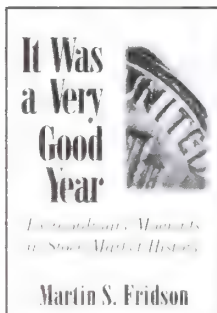
Published by John Wiley & Sons, Inc.



0-471-24736-7 288 pp. \$27.95*

"*Seeing Tomorrow* is a powerhouse in the understanding of risk.... An authoritative and innovative handbook of risk management that is essential for both practitioners and theoreticians."

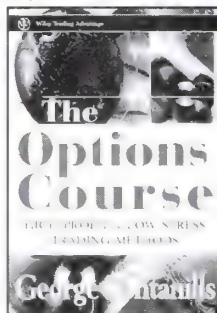
—Peter L. Bernstein, author
Against the Gods and Capital Ideas



0-471-17400-9 256 pp. \$29.95*

"This is a very timely, informative, highly readable book.... There are important lessons in this book for all investors."

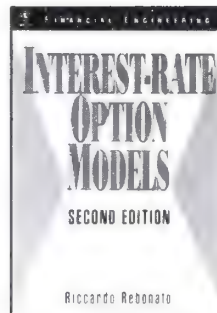
—Henry Kaufman, President,
Henry Kaufman & Co., Inc.



0-471-24950-5 352 pp. \$49.95*

"I heartily recommend *The Options Course* to anyone that wants to get serious about managing their own money."

—Jon Najarian, President,
Mercury Trading, Inc.; Money
Manager, PTI Capital Management;
syndicated radio personality



0-471-97958-9 430 pp. \$60.00*

This revised and expanded Second Edition thoroughly explains option models at both theoretical and practical levels, and includes information on how to best select, implement, and use them.

*Please add applicable sales tax, plus \$3.50 for U.S. postage and handling

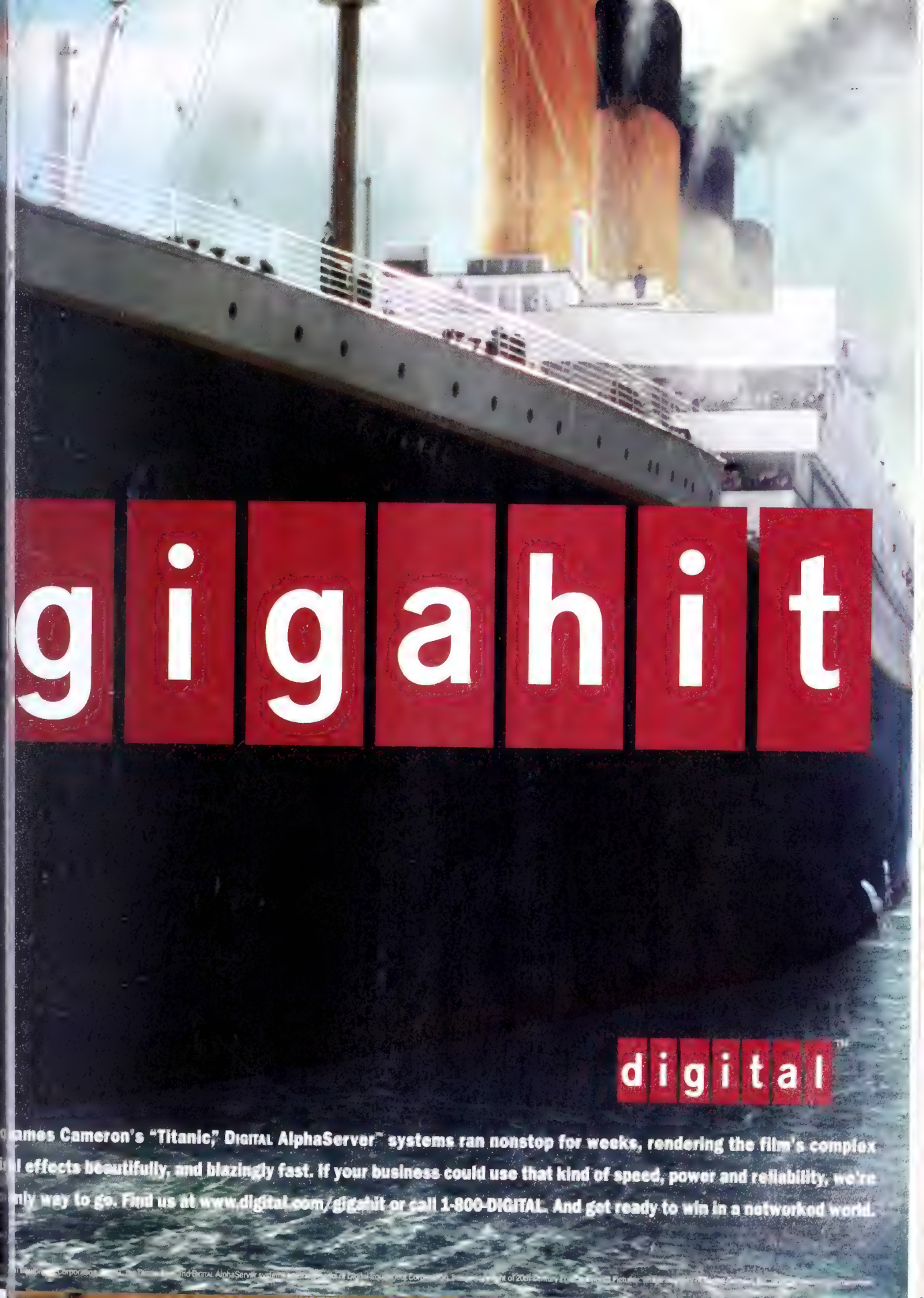
The McGraw-Hill Bookstore

Information for Today's Professional
1221 Avenue of the Americas, New York, NY 10020

To Order: By phone: (212) 512-4100; outside NY 1-800-352-3566
Or Fax to: (212) 512-4105 • Major credit cards accepted

Or Order from the bookstore Web site at:
www.bookstore.mcgraw-hill.com

The McGraw-Hill Companies



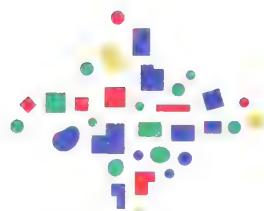
g i g a h i t

digital™

James Cameron's "Titanic," Digital AlphaServer™ systems ran nonstop for weeks, rendering the film's complex digital effects beautifully, and blazingly fast. If your business could use that kind of speed, power and reliability, we're the only way to go. Find us at www.digital.com/gigahit or call 1-800-DIGITAL. And get ready to win in a networked world.



Because growth requires the best conditions



FORTIS

Solid partners, flexible solutionsSM



requires the very best conditions. Security and support are vital. So is having the room to spread your wings. Fortunately, there are more than
his companies around the world ready to help you soar. To manage risks and maximize return. For growth and security. For now and the future. Wherever
our logo, you'll find solid partners with flexible solutions. For individuals and companies, large or small. Visit Fortis on the internet at www.fortis.com
For more information 800 377 72 82. Fortis is active in the United States, Europe, Asia, Australia and the Caribbean. **Fortis. Insurance. Investments.**

BIOTECH

THE LATEST FROM THE LABS: HUMAN SKIN

The FDA is about to approve commercial use of living tissue grown by two biotech outfits

In antiseptic rooms in Massachusetts and California, workers swathed in germ-free suits are carefully watching over high-tech tubs containing dissolvable proteins. Into these tubs, the workers add skin cells harvested from the foreskins of circumcised newborns. The cells are fed with nutrients and growth factors so they grow and multiply. After about three weeks, if all goes well, the workers can toast what they have created: living human skin—sheets of it that can be picked up, cut into pieces, and grafted onto victims of burns and chronic wounds. "It's a fantastic process," says Dr. C. Keith Bowering, a dermatologist at Royal Alexandra Hospital in Edmonton, Alberta, who has treated 12 patients with a lab-grown skin after conventional treatment failed to heal their chronic wounds.

LIVERS, TOO? Dr. Jeffrey C. Page, executive dean of the California College of Podiatric Medicine in San Francisco, says he has high hopes that engineered skin will eventually be used to treat an array of chronic wounds. But "the most exciting consequence will likely be for burn treatments." For Nellie E. Sullivan, a 51-year-old diabetic in Allentown, Pa., engineered skin was the only treatment that worked on a painful sore on the ball of her foot that had not healed in over a year. "I'm well pleased," she says. "I was afraid I was going to lose my leg." After seven weeks of treatment, she says, there isn't even a dent where the wound was.

So far, in the U.S., engineered skin has been available only for clinical trials. But the Food & Drug Administration is expected to approve it for commercial use during the next few weeks. Two companies are independently seeking approval: Organogenesis Inc. of Canton, Mass., and Advanced Tissue

Sciences Inc. of La Jolla, Calif. The two companies' skins were approved in Canada last August, and in January an FDA advisory panel recommended that they be cleared for marketing here.

Engineered skin could be a godsend to the 4 million people who suffer from

case of cadaver skin, there is always danger that a virus or disease will be transmitted as well. Alternatively, a patient's own skin can be grafted after being surgically removed from another part of the body—a painful, risky procedure.

The engineered skins are the first of an entire bionic body worth of laboratory-grown tissues that researchers are working on, including cartilage, nerves, blood vessels, and even livers and pancreases. Such organs could help save the lives of many of the 100,000 Americans who die each year while waiting for an organ transplant. It will likely be at least 15 years before a fully transplantable organ such as a liver is available, cautions Dr. Peter C. Johnson, president of the Pittsburgh Tissue Engineering Initiative at the University of Pittsburgh. "The skin is an important first step," he says. "Now you'll



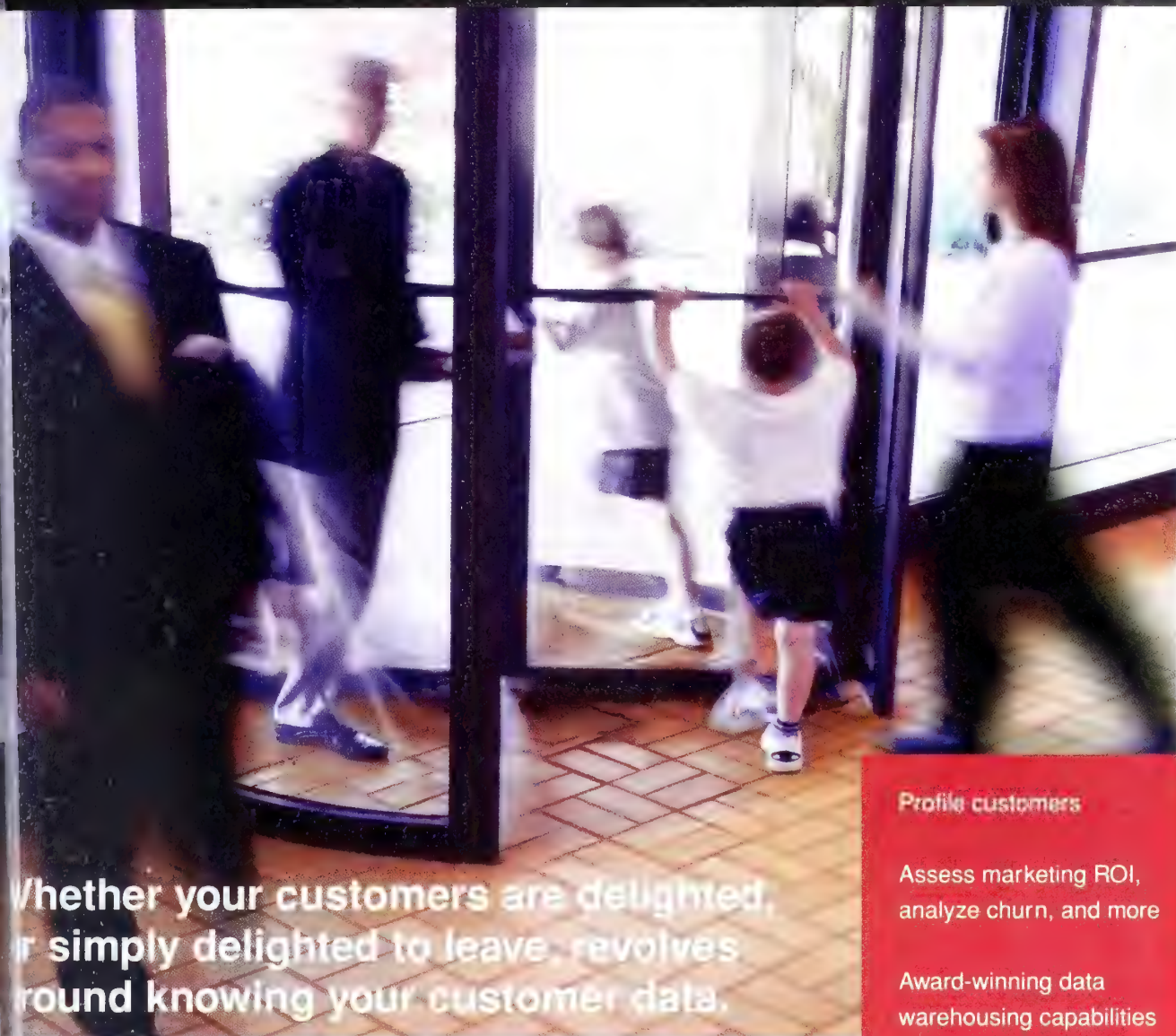
LIVING SKIN FROM ORGANOGENESIS IS GROWN IN NUTRIENTS. IT BLENDS INTO A PATIENT'S OWN SKIN

GODSEND Engineered skin will bring relief to the 4 million people who suffer from chronic skin ulcers and the 100,000 burn victims admitted to hospitals each year

chronic skin ulcers and the 100,000 burn victims admitted to hospitals each year in the U.S. Right now there are few good options when a wound is unable to heal itself. Some temporary artificial skin replacements are available, or skin can be temporarily grafted from a cadaver. But these products are expensive, often don't take, and in the

the technology accelerate. This is the beginnings of the space program.

Just don't call these products artificial skin. Organogenesis' Apligraf and Advanced Tissue's Dermagraft look, feel, and act just like a patient's natural skin. Because the body's immune system doesn't reject skin cells, the engineered skin is quickly incorporated into



Whether your customers are delighted,
or simply delighted to leave, revolves
around knowing your customer data.

That's why you need the SAS[®] Solution

Who are your most profitable customers...and why? How many customers are you
losing... and why? What value do your customers see in your products and services...or
do your competitors? Instead of just storing your customer data, explore all the
capabilities with the SAS Solution for Customer Relationship Management.

The only software that integrates the full scope of managing customer relationships.
Collect information at all customer contact points...then analyze data to better understand
customer needs. Refine business strategies around your most profitable customers.
Determine lifetime customer value. All by just pointing and clicking.

Find out more, and request a free *Guide to Customer Relationship Management with
the SAS[®] Solution*, visit us at www.sas.com/crm

Profile customers

Assess marketing ROI,
analyze churn, and more

Award-winning data
warehousing capabilities

Fully Web enabled

Year 2000 compliant



SAS Institute Inc.

The Business of Better Decision Making

www.sas.com/crm E-mail: bw@sas.com Phone 919.677.8200

In 20 years, Emerging Market GDP
will grow from \$8 trillion



Otis

Carrier

Pratt & Whitney

Sikorsky



to \$40 trillion

(creating a new middle class).

These people can't wait to get started.

They're busy creating infrastructures, airlines, cars, buildings with elevators, offices and homes with air conditioners — and a growing appetite for comfort, security, travel — now.

That's why we're in emerging markets.

Not as outsiders, but as integral partners. Making the best contacts, finding the best ventures, building the best work force, taking the best competitive positions and starting the best kind of growth curve — long and steady.

Sure, there may be bumps. But there's only one direction these markets can go in the next two decades. Forward.

And only one way to capitalize on it.

Be there first.



body. Once grafted on, the skin sends out growth factors and tissue proteins that promote healing and encourage the patient's natural skin to grow toward it. Clinical studies suggest that after three months, it's almost impossible to tell where the engineered skin stops and the patient's own begins.

The concept behind these skins was pioneered 15 years ago by Robert S. Langer, a professor at Massachusetts Institute of Technology, and Dr. Jay Vancanti of Boston Children's Hospital. They discovered that certain proteins could act as scaffolds on which living cells would grow.

HARD TASK. Both Organogenesis and Advanced Tissue have spent some 10 years developing universal skin substitutes that can be applied on an outpatient basis. That's no easy task, considering the complexity of skin. The epidermis, the outermost layer that forms a waterproof coating for the body, is as thin as a piece of paper but has four or five sublayers. Next comes the dermis, only slightly thicker than the epidermis and primarily made up of connective tissue cells called fibroblasts.

Organogenesis's Apligraf and Advanced Tissue's Dermagraft each start with a baby's foreskin, a consistent, readily available source. Plus, young skin grows better. One piece of foreskin can produce four acres of engineered skin with a five-day shelf life. But from there, the two products differ significantly. The biggest difference: Dermagraft recreates only the dermis layer, while Apligraf consists of both the epidermis and dermis.

Medical experts say the epidermis provides important functions but they are uncertain whether it is necessary for a skin graft. "You get more of the

normal barrier of the skin, but the epidermis might also send out signals that healing is already complete," says Dr. William H. Eaglstein, chairman of the Department of Dermatology at the University of Miami Medical School. "But as a practical matter, no one really knows which [Apligraf or Dermagraft] is better. They haven't been tested against each other."

Advanced Tissue's Dermagraft, which has been licensed to Smith & Nephew, a

Advanced Tissue Sciences suffered a setback in March, when the FDA requested more data and found some problems with the company's manufacturing process. That could delay approval, says David S. Weber, an analyst at SBC Warburg Dillon Read, "but there's no reason to think that they won't get it."

Organogenesis' Apligraf, licensed to Novartis, is awaiting FDA approval for venous leg ulcers, chronic wounds that affect about 600,000 patients in the U.S. each year and frequently lead to death. The standard treatment now involves compression bandages, the same method used 10 years ago. In a study published in the March issue of the *Archives of Dermatology*, five applications of Apligraf over three weeks cut the median time for wound healing by two-thirds, to 18 days, compared with 181 using bandages. Apligraf "represents a significant advance in the treatment of venous ulcers," says Dr. Vincent Falanga of the University of Miami Medical School, the lead researcher on the study.

The potential market for treatment of leg ulcers is about \$1 billion each, analysts estimate. The kind of opportunity boosted the stock of both companies after the FDA advisory panel recommended in January. (Advanced Tissue declined shareholder after the FDA warning about its manufacturing process in late March.) Patients willing to pay the price could even use bioengineered skin for cosmetic purposes, says Page of the California College of Podiatric Medicine. The bionic body as fountain of youth. Maybe. But the most important use of the skins will be to save lives.

By Catherine Arnst in New York

GROWING SKIN

How to get from a few cells to a living skin

IN THE LAB

- 1 First, a polymer scaffold is built of dissolvable protein and placed in an incubator.
- 2 Then it is seeded with cells called fibroblasts, which are harvested from foreskins of circumcised newborn babies. Non-fibroblast cells that

might provoke the recipient's immune system are filtered out.

- 3 Next, the skin is soaked in a nutrient bath for two weeks. During this time, the cells proliferate and secrete collagen, growth hormones, and essential proteins.



IN THE CLINIC

- 1 The finished skin is placed on a wound. It holds in fluids, transfers vital proteins, shields the wound from infection, and sends growth signals out to the patient's own skin, getting it to grow toward the wound.

- 2 Within three months, the engineered graft is fully incorporated into the recipient's natural skin and the scaffold dissolves.



DATA: ADVANCED TISSUE ENGINEERING

British health-care company, is awaiting approval in the U.S. for diabetic foot ulcers. About 800,000 diabetics develop these persistent sores each year, according to the American Diabetes Assn. In studies presented to the FDA, almost 60% of patients who received one piece of Dermagraft a week for eight weeks were completely healed after 12 weeks, compared with 32% of patients receiving conventional treatments.

ary. (Advanced Tissue declined shareholder after the FDA warning about its manufacturing process in late March.) Patients willing to pay the price could even use bioengineered skin for cosmetic purposes, says Page of the California College of Podiatric Medicine. The bionic body as fountain of youth. Maybe. But the most important use of the skins will be to save lives.

By Catherine Arnst in New York



What's more impressive?

The fact that Nasdaq
can handle over a billion
shares a day, or that
MCI helps them do it
without a trading floor?

Nasdaq needed the world's largest intranet.
MCI gave it to them. The free-enterprise system is
alive and well—and living within the world's largest intranet.
Nasdaq, the world's most advanced stock market, chose
MCI to design, build and maintain the backbone of their
business. A network that connects 120,000 computers around
the world. And delivers data to each Nasdaq broker within 50
milliseconds. Sometimes quite a bit of data—October 28,
1997 saw 1.37 billion shares traded, without interruption.
And as Nasdaq grows, so does their relationship with MCI.
We're now developing their next-generation network—
capable of handling four billion shares a day. To find out
how MCI can help manage your intranet and data needs, visit
www.mci.com/data.

For more information, visit our website at
www.mci.com/data



Let's talk about clients on two coasts.

...I need all my files at both offices...

Let's talk about flight delayed.

...and in between.

Let's talk about popcorn.

...did I mention, I love movies?





Let's talk about your Gateway.™



When you call Gateway, we'll build a computer just for you. Karen said "I don't need a wimpy laptop, I need a desktop that travels." So we built her a portable with the power of a desktop. What can we build for you? Do you work in one place or all over the place? Do you need to give presentations on the fly?



Write memos? Both? Want to watch movies? Play games? Call us, and...Let's talk about your Gateway.™

the ultimate copilot (Solo® 5100SE)

Want a lighter portable that still works like a heavyweight? This one's only 6.6 lbs. and 1.6" thin and comes with:

- 14.1" Active Matrix Color Display
- An Intel® Pentium® II Processor at 233MHz with 512K Cache
- 32MB of RAM (*for smooth presentations*)
- 2GB Hard Drive (*holds all your files*)
- A modem (*for Internet access and e-mail*)
- An interchangeable CD-ROM and 3.5" Diskette drive
- Altec Lansing® Speakers
- Microsoft® Windows® 95 already loaded (MS® Windows 98 Upgrade Offer valid through June 20, 1998)
- And we back it all with Gateway Gold™ Service & Support for portable PCs

\$2999 As low as *\$104/mo.

Karen's portable desktop (Solo 9100SE)

Karen wanted a desktop PC she could use at two offices, so we built her a portable with:

- A 14.1" Active Matrix Color Display (*more viewable area than most 15" desktop monitors*)
- An Intel Pentium II Processor at 233MHz with 512K Cache
- 32MB of RAM (*to manage multiple tasks*)
- 4GB Hard Drive (*for extra storage*)
- A modem (*for Internet access and e-mail*)
- Microsoft Windows 95 already loaded (MS Windows 98 Upgrade Offer valid through June 20, 1998)
- A 4MB 3-D graphics accelerator and game port
- Altec Lansing Speakers

But she likes to have some fun too, so we added:

- A removable combo DVD-ROM and 3.5" diskette drive (*for movies, games and software*)

\$3899 As low as *\$135/mo.

Let's talk about your



Gateway

www.gateway.com

call 800-238-7074

©1998 Gateway 2000, Inc. All rights reserved. Gateway and the Gateway stylized logo are trademarks of Gateway 2000, Inc. The Intel Inside Logo, Intel and Pentium are registered trademarks, and MMX is a trademark of Intel Corporation. All other brands and product names are trademarks or registered trademarks of their respective companies. All prices and configurations are subject to change without notice or obligation. Prices do not include shipping and handling or any applicable taxes. Many Gateway products are custom-engineered to Gateway specifications, which may vary from the retail versions of the software and/or hardware in functionality, performance, or compatibility. *Financing available on approved credit issued and administered by MBNA America® Bank, N.A. Payments based on a 36-month term at an Annual Percentage Rate as low as 14.9%. Microsoft, MS, Windows, Windows NT and Bookshelf are registered trademarks of Microsoft Corporation.

outstanding service, innovation and integrity — a strong, reliable partner in an ever changing world.

Building futures.

Our Alliance Capital Management and Donaldson Lufkin & Jenrette companies are world-class leaders in asset management and investment banking. While none of this is changing, we now have a new, exciting and powerful dimension. As a member of the Global AXA Group, The Equitable is changing the way the world does business. AXA is one of the world's largest, most innovative and fastest growing financial services companies — with over \$500 billion* in assets under management and a strong presence in 50 countries. Add this global reach to The Equitable's premier U.S. capabilities and you have a combination that's hard to beat. To learn more, call us at 1-800-590-5995 or visit us at www.equitable.com

EQUITABLE



EQUITABLE

EQUITABLE

EQUITABLE

Member of the Global



Group

EDITED BY NEIL GROSS

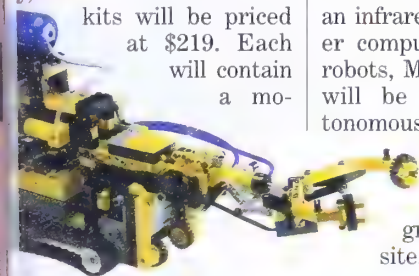
HEY, KIDS— LET'S BUILD LEGO ROBOT

SO FANS WILL SOON PLUNGE into the realm of robotics. In October, the Danish toymaker will launch Lego Mindstorms, which pairs its familiar colored plastic bricks with chips and electronic sensors.

Inspired by research at Massachusetts Institute of Technology's Media Laboratory, the new Mindstorms kits will be priced at \$219. Each will contain a mo-

tor, batteries, and a micro-processor-enhanced brick called an RCX—as well as the usual blocks, wheels, and gears. Children will be able to program robots to perform specific functions, such as scampering into the corner of a room when a light is turned on or navigating an obstacle course. Budding programmers will write rules for their robots on a PC, using simple drag-and-drop icons. Then, they'll transfer the programs into the RCX brick through an infrared link. Unlike earlier computer-enhanced Lego robots, Mindstorms creations will be wireless and autonomous. And kids will be

able to share ideas and download each other's RCX programs at a Lego Web site. *Inka Resch*



LIVING EXPLOSIVES A 'SIGNATURE'

MORE THAN 20 YEARS AGO, chemists in the U.S. figured out how to tag batches of explosives with unique, multicolored plastic particles. The idea was to help police track terrorists, but it never caught on. The mixtures may not perform exactly like the original chemicals.

Chemical startup Isonics Corp. of San Jose, Calif., thinks "taggants" make sense, but plastic is the wrong solution. President and founder James

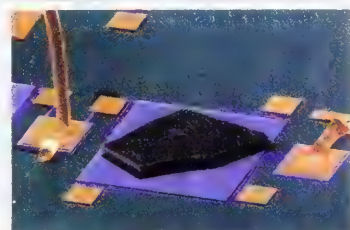
Alexander says the best approach is to replace some of the elements in explosives with their stable (nonradioactive) isotopes. These are synthetic and naturally occurring twins of such atoms as hydrogen, carbon, nitrogen, and oxygen—the key ingredients in most explosives. Alone and in combination, iso-

topes behave exactly like their more common atomic twins. But when examined with high-powered imaging tools, such as magnetic resonance imaging, different batches of stable isotope-laced chemicals—or their explosive residues—would display unique signatures.

Isonics isn't the first company to explore stable isotope tagging. The technique has been used to help gasoline companies track their products. But Alexander thinks Isonics will have a cost advantage, thanks to high-volume production techniques obtained through a partnership with the Institute of Stable Isotopes in Tbilisi, Georgia. The institute is used to provide the Soviet nuclear-weapons program with isotope expertise, including techniques for enriching uranium. □

A TINY TRAMPOLINE TO GAUGE MAGNETISM

EXOTIC METAL ALLOYS and other new materials could be the keys to powerful new computer chips and other electronic devices. But it helps if scientists can first determine the materials' magnetic properties. One way is to expose a sample to a massive magnetic force 1 million times that of the earth's magnetic field. Scientists create this force with a pulse of electricity that lasts one-hundredth of a second. There's just one problem: Measurements are difficult because the field disappears so quickly.



LILLIPUTIAN: The trampoline is just 300 microns across

Physicist David J. Bishop and his colleagues at Lucent Technologies Inc.'s Bell Laboratories have an ingenious solution for split-second magnetic measurement. Following the principle that "fleas are faster than elephants," as Bishop puts it, his team designed a tiny trampoline just 300 microns across—about three times wider than a human hair (picture). Anchored by four springs, the trampoline's net is stretched just above a fixed electrical plate.

In the center of the trampoline, the researchers put a one-microgram speck of material. When they flick the switch on the magnet, the sample is pulled toward the plate. The amount of movement indicates the sample's degree of magnetization, Bishop says. "The trampoline is so small that it can move in the same time scale as the magnetic force." In April, Bishop proved the device works by testing the magnetization of a superconductor with properties that are already known. The results are described in the May 1 issue of *Science*. □

INNOVATIONS

■ Scientists at Emory University's Yerkes Primate Research Center in Atlanta have discovered a neurotransmitter in the brain that helps control food intake and seems partially responsible for the feeling of satiety. The finding may point the way to new medications for obesity. The neurotransmitter is called CART, for cocaine and amphetamine regulated transcript. It was uncovered during studies of how cocaine affects the brain. Rats that received injections of CART in the brain ate less. And when

the animals' natural CART production was blocked, the rats binged.

■ Popeye gulped spinach when he needed a burst of energy. Now, researchers at Oak Ridge National Laboratory figure spinach might do the same for micromachines. The scientists are bioengineering the plant's photosynthesis centers, adapting them to serve as ultratiny photodiodes. If all goes well, these devices will use photons to generate electrons, so light can charge miniature batteries that would power lilliputian machines carved out of silicon.



You're the fastest growing Internet service provider.
But for how long?

There's a company that knows how to keep you number one.



SPEEDING SUCCESS

We at Nortel can help you deliver the high-speed data your Internet customers will want, at a very affordable price. In New York City, we helped one ISP offer a reliable, around-the-clock, extended network that rapidly attracted new subscribers. Our vision is webtone: an Internet that's accessible, reliable and secure. We're providing the bandwidth you need to deliver new access speeds and services. If you want to keep your Internet customers happy and your profits high, visit us at www.nortel.com/success1. Or call us at 1-800-4NORTEL. We'll help speed your success.

NORTEL
NORTHERN TELECOM

IS NOTHING SACRED?

Mad Ave adopts ad haters' most potent weapon—parody

In Northern California, a band recently released *Dispepsi*, a CD pieced together from bits of music, ads, and interviews to create a scathing (and entertaining) commentary on the nation's second-largest soft-drink company. In New Jersey, a coalition of artists alters billboards in minority neighborhoods, adding touches such as a banner on a Newport cigarette ad that reads "Healthy profits don't always require living customers." And *Adbusters*, a nine-year-old Canadian quarterly devoted

to the art of the "culture jam"—as such rearranged anti-advertising ads are called—reaches 30,000 subscribers, mostly in the U.S.

With sales messages assailing us in every possible venue, it's no wonder that there's a growing cadre of activists who simply loathe ads and the industry that perpetrates them. What is more surprising is the growing sophistication of the backlash. Thanks to the advent of desktop publishing and the Internet, these grassroots critics are increasingly

fighting Madison Avenue with the industry's own techniques. Just look at the fake ad on the back cover of *Stay Free!*, a tiny New York-based 'zine that critiques consumer culture. The typeface and photography look like the familiar Dewars campaign featuring attractive, sophisticated young imbibers, but the tagline reads: "Remember how liquor used to make you vomit?"

Corporate America's reaction to these lampoons is muted. "No comment," say Jan Sharkansky, a spokesperson for Calvin Klein Cosmetics Co., when asked about an *Adbusters* "ad" that shows a musclebound young man peering intently down his fashionable underwear under the headline "Obsession." Others in the ad community say they're barely aware of culture jammers and that, in any case, there's no advantage to trying to stop such small fry.

But while advertisers may be oblivious to the politics and polemics behind culture jamming, they have been quick to intuit the value of a clever parody. Copping the same hip, ironic attitude

PLAYING OFF ICONS

Adbusters, a quarterly devoted to "culture jamming," employs sly mockery to skewer our consumer culture

and playing to the same consumer cynicism, big-time marketers have begun to lampoon one another. "It punctures the pomposity because you're telling people something real," says David Suissa, chairman and executive creative director for Suissa Miller Advertising Inc., which produced a series of parody ads for Boston Chicken Inc. last year mocking Calvin Klein's anorexic models.

"KILLING THE PLANET." Adland's embrace of parody has blunted one of the culture jammers' favorite weapons, but not their ardor. Take 29-year-old Carrie McLaren. A record promoter by day, she publishes *Stay Free!*—with such articles as "Singled Out: An alarmist look at ultra-targeted marketing"—largely at her own expense. Why? "It's not just advertising, it's the overall commercialization of the planet," she says. Others cite ecological concerns. "We believe that our corporate culture is unsustainable," says Kalle Lasn, *Adbusters'* editor and founder. "Economic progress is killing the planet."

Mark Hosler of Negativland, the Berkeley Area band that released *Dispepsi*, also believes that the sheer volume of advertising is degrading to the mental and physical environment. "It isn't the advertising per se is evil, it's the amount of it that's going on," says Hosler, whose band coined the term "culture jamming." He argues that the wealth and might of giant markets

**THE TRUE COLORS
OF BENNETTON.**

Your likes and dreams are now available 24 hours a day.
For the location of retail outlets nearest you, Call 1-800-649-0000

worried?

SUCCESSFUL

used this
ay on DEC's
to win
w business

ssages and icons already out there.
There's also a political strand. Cicada
ps of Artists, the New Jersey group,
ers tobacco and liquor billboards in
ority neighborhoods, which they say
eive a disproportionate share of such
ertising. Defacing billboards is illegal,
group member Pedro Carvajal be-
es their activities are justified: "Al-
natives have been taken away be-
se they [advertisers] have all the
ey. We had to go underground."
advertisers say the backlash from



fr
e groups is sim-
poo puny to reg-
on their radar
ens. Maybe, but
e parody protest
have begun
ing up in more
tional media. During a labor dis-
with a Miller Brewing Co. distrib-
in St. Louis three years ago, the
sters put up a billboard mocking a
r ad. Instead of two bottles of beer
snowbank with the tagline "Too
," the ad showed two frozen work-
n a snowbank labeled "Too Cold:
r canned 88 St. Louis workers."
Carver, coordinator of strategic
aigns for the Teamsters, says the
n has since used similar parodies
putes to great effect. "When you're
g this, you're threatening multibil-

JUST DROP IT
Nike wasn't
amused with
this Candies
parody

After
we deliver
your Year-2000 solutions
and your Euro solutions...

in record time,

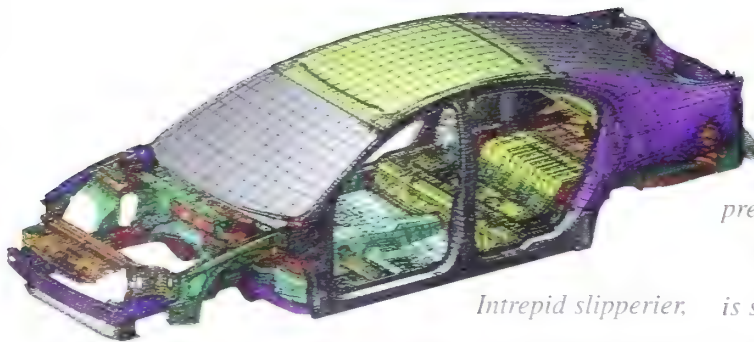
you'll probably want us to build your

CRITICAL BUSINESS APPLICATIONS

in record time!



www.sapiens.com



For the all-new Dodge Intrepid, we changed everything. Again.

Even our acclaimed cab-forward design. We made

Intrepid slipperier, smoother and sleeker. Yet by exploring literally millions of design alternatives in our digital design system, we were able to make it

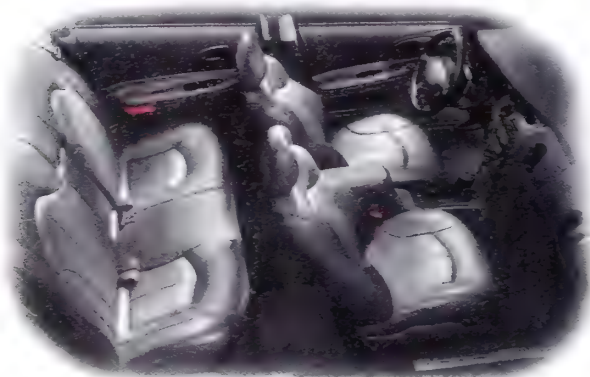
more accommodating as well, with even more useable space than the previous Intrepid.

What's more, this Intrepid is structurally superior.

Torsional stiffness has been increased by a full 37%, yielding a quiet, athletically agile car. And while Intrepid's sleek new lines

are a visual delight for onlookers, its low hood and large windshield are a visual delight for drivers who appreciate a good view of the road.

Dodge Intrepid: It's what happens when you take cab-forward design and stretch it all the way to the next century.



This takes
a s

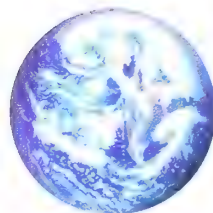
Intrepid The New Dodge

*For more information, call 1-800-4-A-DODGE
or visit our Web site at www.4adodge.com*



cab-forward step forward.

Always use seat belts. Remember, a backseat is the safest place for children.



Most Read. Best Read. Worldwide

BusinessWeek

www.businessweek.com



DIA WAR
New Jersey, artist group ers tobacco boards

sleyan University, is incensed at at he sees as the blatant appeal to s by Big Tobacco. So a few years , he countered with his own car- n character, Joe Chemo, who bears e than a passing resemblance to a ain familiar dromedary. With the o of various anti- king groups, Joe emo has moved n the pages of *Ad- ters* to billboards downtown Seattle, ters in public ools, and T-shirts n away to kids.

SUITS. Many big ids aren't as will- to shrug off the ofs when they're e nationally by a w marketer. Digi- Equipment Corp.'s omfort with rival viett-Packard Co.'s dy was under- dable. Running just once in a few onal publications, the ad replaced "Digital" in the company's trade- k red blocks with the word "wor-?" in the same typeface. Appealing ustomers left anxious by DEC's re- merger with Compaq Computer o., the ad brought in millions of dol- of business, says Nick Earle, mar- ing manager for HP's Enterprise Sys- s Group. Digital's response: a letter P alleging trademark infringement demanding a halt to the ads. ven mainstream ad parodies that t launched by rivals often seem to t in allegations and lawsuits. Mat-

lion-dollar ad cam- paigns," he says.

Tobacco lampoons have also moved into the mainstream. Scott Plous, a psy- chology professor at sleyan University, is incensed at at he sees as the blatant appeal to s by Big Tobacco. So a few years , he countered with his own car- n character, Joe Chemo, who bears e than a passing resemblance to a ain familiar dromedary. With the o of various anti- king groups, Joe emo has moved n the pages of *Ad- ters* to billboards downtown Seattle, ters in public ools, and T-shirts n away to kids.



Remember how liquor used to make you vomit?



Right: Big Tobacco's ad for Dewey's

tel's sensitivity on the subject of Barbie is legendary. The company moved quickly to quash a recent Nissan ad that featured Barbie-and-Ken-like dolls. And Nike Inc., whose attitude-filled commercials have made it a favorite parody target, found nothing humorous about a recent campaign by Candie's Inc. for colorful new sneakers featuring actress Jenny McCarthy. The tagline: "Just Screw it." Nike fired off a cease-and-desist letter.

Heineken USA Inc. avoided litigation by taking parody a step further. A campaign for its Amstel brand involved billboards and TV spots denouncing it as an evil import from "free-thinking" Amsterdam. The campaign, supposedly by the fictitious Americans for Disciplined Behavior, won publicity when the prank was uncovered.

SOPHISTICATED

This "ad" ran on the back cover of *Stay Free!*, a New York-based zine.

As the loop closes, it's getting harder to tell those who parody from those who are parodied, partly because it is virtually impossible to shame Madison Avenue. Two years ago, Negativland's Hosler got a call from hip Portland-based ad agency Wieden & Kennedy Inc. raving about the band's work and asking if it would like to make a spot for Miller. "I think they were sort of mystified about why we turned them down," he says. And that may be the ultimate irony. Advertisers crave a hip, cutting-edge attitude—even if it comes from their most ardent detractors.

By Mary Kuntz in New York

What's changed about the car that changed everything?

If you know, you could win a set of Tumi luggage, courtesy of *Business Week*

Tell us what's changed on the new Dodge Intrepid, and we'll enter you in the Intrepid I.Q. Sweepstakes. You'll find the answers in the Intrepid ad in this issue.

1. Where did Dodge engineers explore design alternatives?

- a) In an Amazon rain forest.
- b) In their digital design system.
- c) In their spartan cubicles.
- d) In a posh, L.A. cigar bar.

2. What are some benefits of Intrepid's improved torsional stiffness?

- a) World peace and stability.
- b) Reduced agricultural runoff and less soil erosion.
- c) A quiet, athletically agile car.
- d) Better night visibility and improved memory.

3. What happens when you take cab-forward design and stretch it all the way to the next century?

- a) You lose a day.
- b) Dodge Intrepid.
- c) General unrest.
- d) You lose two years.

4. What are two ways to get more information about Intrepid and The New Dodge?

Call 1-800

or visit the Web site at www.dodge.com.

Name

Address

City

State

ZIP

Daytime Phone Number

Evening Phone Number

OFFICIAL RULES No purchase necessary. To enter, complete the registration form, indicating your present permanent address (AP's do not phone home), and mail to: Intrepid I.Q. Sweepstakes, Mr. John Bergan, Dodge Intrepid I.Q. Sweepstakes, *Business Week* Magazine, 1221 Avenue of the Americas, New York, New York 10020. **REGISTRATION:** Open to legal residents of the U.S. who, as of May 10, 1998, are 18 years of age or older. Void where prohibited. All U.S. federal, state, local, and municipal laws and regulations apply. **(7) Odds of winning depend on number of eligible entries received. You need not answer all questions correctly to be eligible to win. The decision of Business Week in all matters relating to the rules and administration of the sweepstakes shall be final. Winner will be drawn randomly from among all eligible entries. The winner will be required to execute an affidavit of eligibility/price acceptance and release and consent to use of his/her name and/or likeness in advertising without further compensation, unless prohibited by law, within 14 days of notification. Non-compliance will result in disqualification and the selection of an alternate winner. Sponsors are not responsible for damage, losses, or injury, resulting from the use and acceptance of prizes. Prize winner's name can be obtained by sending a self-addressed, stamped envelope to Mr. John Bergan, Dodge Sweepstakes Winner, Business Week Magazine, 1221 Avenue of the Americas, 40th Floor, New York, NY 10020.**



Intrepid  The New Dodge

BY BRIAN BREMNER

If only Japan would listen. That sentiment, in one form or another, has been a favorite among foreign governments, executives, and commentators for years. In the 1970s, as the Japanese created the world's most dynamic automobile industry, Americans urged them to curb their exports. When Japan rode a wave of prosperity in the 1980s, Western governments demanded that the country open up its restricted markets. And today, as Japan staggers into recession, finance ministries around the world are begging the government of Prime Minister Ryutaro Hashimoto to spend, spend, spend. Cut taxes, Mr. Hashimoto. Prime the pump by tapping Japan's \$10 trillion in savings. Just act, and you can kick off a recovery in Asia that will prevent a global slowdown and end the region's crisis.

In recent weeks, the chorus from the world's money-men and heads of state has grown louder. Michel Camdessus of the International Monetary Fund, Treasury Secretary Robert Rubin, and Prime Minister Mahathir Mohamad of Malaysia, among others, have called on Japan to act. President Clinton plans to have a stern talk with Hashimoto at the upcoming G-7 conference in Britain. Japan has responded in its grudging fashion, offering tax cuts of \$34 billion over two years and making pledges to boost a public-spending program that already dwarfs the U.S. defense budget.

The market, which had wanted \$120 billion in tax cuts over three years, drove the Nikkei down. The gloom deepened. If Japan would only listen.

Yet the world's leaders may want to consider that their calls for a tax cut represent dangerous wishful thinking. A tax cut to put some life into the economy would certainly give a temporary lift to Japan. Yet fiscal stimulus, however deep, may not do much to resolve the Japanese crisis at this point. The challenges facing Tokyo are far more multifaceted than simply putting more money in the pockets of Japanese consumers. Japan faces a debt trap of its own making that involves the banks, households, and corporations of the whole nation. Japan must dismantle this trap. Otherwise, its struggles could weaken the yen further and destabilize the world economy, forcing other Asian nations to devalue and eventually hurting U.S. exports. A dysfunctional Japan could slow global growth for years.

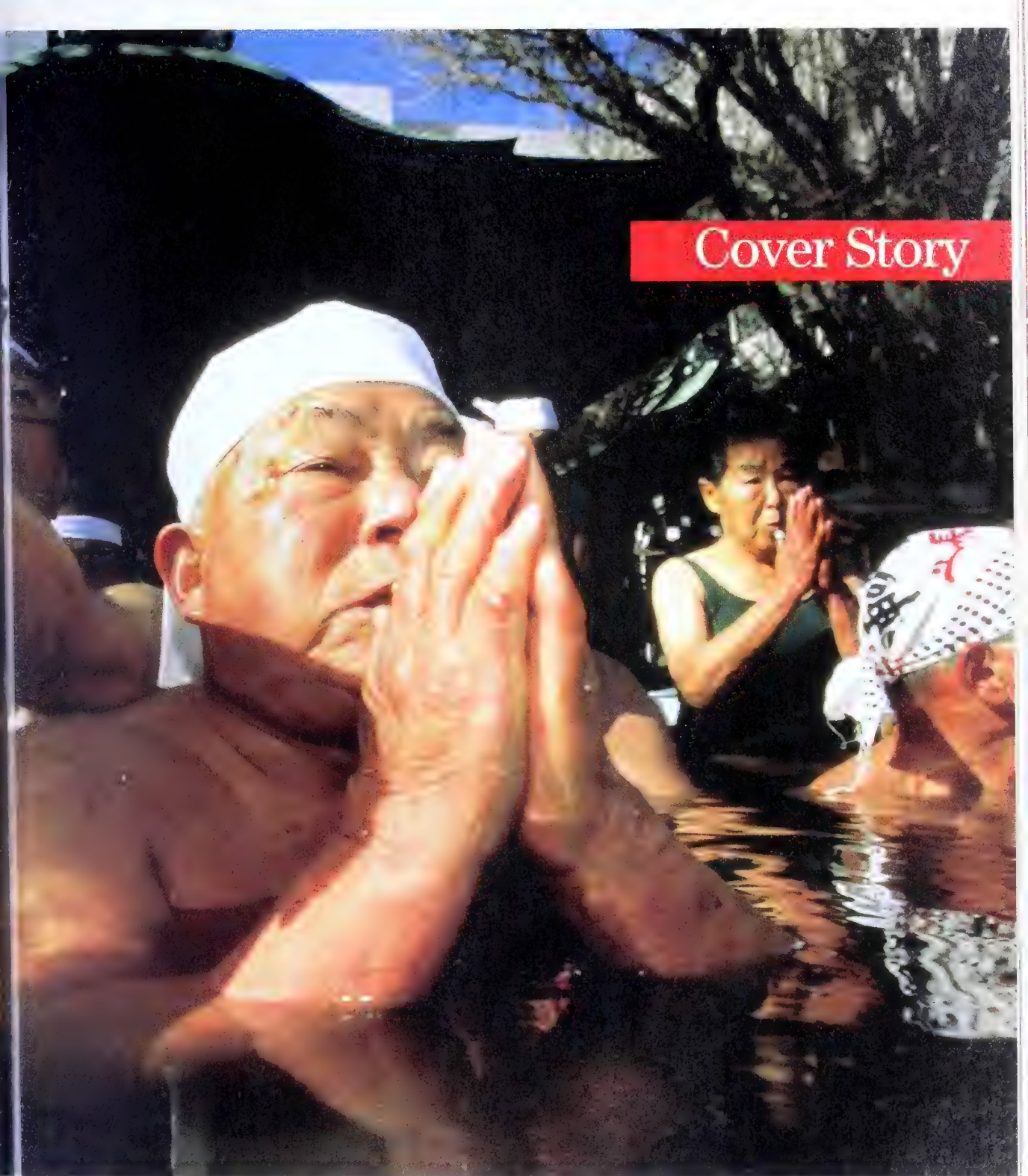
NEW LIGHT. The problem is not just the reported \$600 billion in bad loans that plague the nation's banks. It involves hundreds of billions of dollars of debt that lurk off the balance sheets of government bodies and corporations. It includes millions of families struggling to pay off mortgages on houses that have lost 70% of

PRAYING AT A SHRINE

Ordinary Japanese are anxious about their job security, living standards, and retirement savings



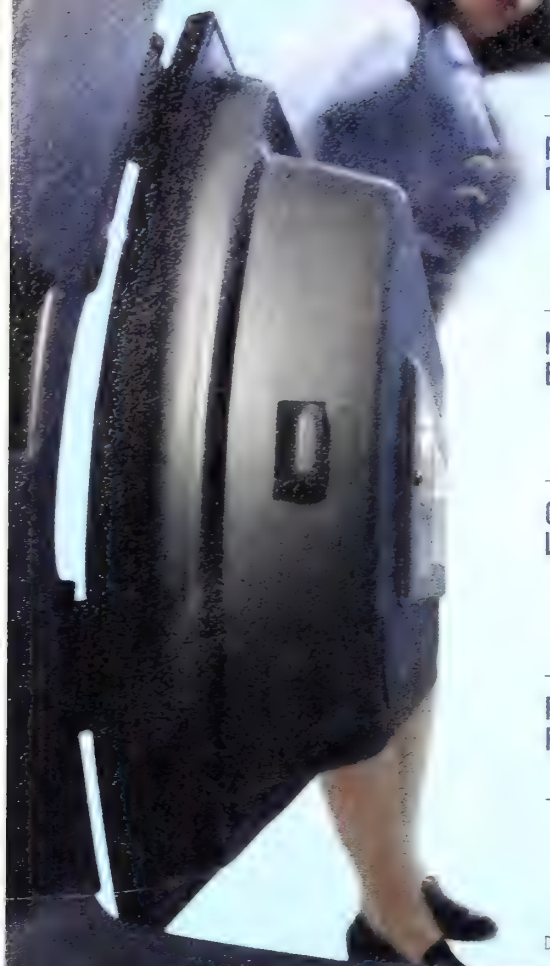
JAPAN'S REAL



Cover Story

CRISIS

Until its hidden-debt mess is cleared up, no recovery is possible



Japan's Debt Trap

	OFFICIAL LEVEL	PROBABLE LEVEL
PUBLIC DEBT	About 100% of GDP, or \$4.5 trillion. That's on a level with such highly leveraged Western countries as Belgium, Canada, and Italy.	Actual public debt could be as much as 250% of GDP, making Japan the most indebted nation in the industrialized world. To reach that number, analysts throw in the debt of <i>Zaito</i> , an off-balance-sheet government lender.
NONPERFORMING BANK LOANS	About \$600 billion. The government has recently admitted to that much after claiming for years that it was only about \$200 billion.	More like \$770 billion, according to the ratings firms. The extra \$120 billion is bank declared nonperforming but probably not being serviced by distressed corporate borrowers.
CORPORATE LIABILITIES	Debt exceeds equity by an average of 4 to 1 in the corporate sector. That level is forcing companies into bankruptcy at a record rate.	The situation is likely to be worse, since poor accounting does not reveal borrowings overseas or pledges to cover the debt of corporate affiliates. Private pension plans totaling \$600 billion are underfunded by as much as 40%.
PROPERTY PRICES	Official Level. Japan's commercial and household real estate is still valued at \$17.5 trillion.	A markdown of 10% to 30% is probably necessary. That means households with mortgages are sitting on \$250 billion in paper losses.
THE BOTTOM LINE		ACTUAL PUBLIC DEBT: \$11 trillion ACTUAL PROBLEM LOANS: \$1 trillion

DATA: BUSINESS WEEK

SAFES FOR SALE

Many Japanese may be stashing yen at home. Banks pay only 1% interest, so why risk a collapse?

tions. And a steady flow of capital to the equity and bond markets of America and Europe could aggravate the crisis.

Taken together, the liabilities cast a new light on the Japanese problem. Despite the country's \$800 billion in overseas assets and \$200 billion in foreign exchange reserves, Japan's troubles may run a lot deeper than even the pes-

simists may realize. Perhaps the size of the debt would not matter if the country

were growing briskly. Canada, for example, has sizable public debt, but its economy is sound, so concern about these liabilities is minimal. In the U.S., once regulators resolved the savings and loan crisis, the economy rebounded, and many of the problem debts were eventually paid off.

Yet Japan is not growing. Instead, a crisis of confidence has gripped the nation. In the midst of the financial fog, no one in

Japan knows the full extent of the problem, no one can predict where the bottom is, no one knows which bank will fail next, and no one can guess whether the market will ever clear. France and Germany have high debt levels and pension crises, too. But no Western nation needs to grapple with the problem of hidden, unmeasured debt in the way Japan does. "The debt is a time bomb," says Clyde Prestowitz, veteran Japan watcher and president of the Economic Strategy Institute. "The crazy thing is that the Japanese could take care of it, but they aren't doing anything."

Now, analysts and executives are openly talking about what could go wrong. According to Kunji Okue, an analyst at Dresner Kleinwort Benson, the government is earmarking 46% of its effective tax revenue for servicing the debt. If interest rates rise again, the government's borrowing costs will jump and its ability to cover expenses would deteriorate. Okue figures that if long-term rates were at 1990 levels of 7% or so, the cost of debt servicing would make it impossible for the government to cover its payroll. The government may also have to handle more debt than it bargains on, since it has made implicit guarantees to cover much of the bad debt in the bank system. **"DEMORALIZING."** This scenario has compelled Moody's Investors Service to put Japan's sovereign debt on Credit Watch. "Japan could become like the Latin American governments of the 1980s, when debt service ate up expenditures," says Moody's senior analyst Thomas Byrne. Although Japan is the

Cover Story

richer than the Latins, it has little room left for further tax hikes, which would lead to slower growth and even more deflationary pressure on assets. And to keep capital at home, Japan may have to raise rates, since deregulation makes it easier for Japanese to put their money in investments overseas.

The situation is unstable. Banks dare not lend any more, and corporations are desperate for credit. Yes, Japan is immensely rich, and it can still resolve its crisis, given its deep pool of talented workers, its tradition of sacrifice, and a history of remaking itself. But at this point, its liabilities would strain a country far better governed than it is. "When the economic history of this century is written, one of the great stories will be Japan's mishandling of its own economy," says Jay W. Chai, chief of Itochu International Inc., a subsidiary of the big Japanese trading house. "It's a sad, demoralizing tale."

A MONSTER. To get a sense of how bad things are, look at institutions that get little mention in the papers. In Japan, there's a sprawling shadow budget that few outside the country ever hear about. It's called the Fiscal Investment & Loan Program, or *Zaito*. But it's a monster, with spending that approaches two-thirds of government outlays. Over the years, it has been a stealthy source of financing for favored enterprises of bureaucrats and the Liberal Democratic Party. Funding for the projects has come from Japanese savers, through public pension assets and the vast state-owned Postal Savings system. All told, *Zaito*'s loans come to some \$2.8 trillion, all backed by the government. The suspicion is that perhaps 9% of these loans, some \$250 billion, are invested in useless projects that aren't generating enough return to pay back the debt.

The shadow *Zaito* budget, controlled by the Ministry of Finance, steers lending into

ly 50 government-linked entities. These include the National Investment Service, the Japan Development Bank, public companies such as Japan Highway Development Corp. and Japan National Railways, and local governments and special firms such as Osaka International Airport Co., which is underwriting the Osaka International Airport. Environmental Hygiene Financial Corp. has extended \$7.6 billion in loans, mostly to restaurants and bars, for cockroach control and other public-health matters. At least 5% of the loans are in trouble, since many restaurants have folded during the stagnant 1990s. *Zaito* also supplies low-interest loans to the Housing Loan Corp. (HLC), which holds 40% of all mortgages. The HLC claims to have only \$1.4 billion in questionable loans. That may be understated, given the rout in the property market and the fate of *jusen*, the seven private housing-loan corporations that needed a \$6 billion bailout three years ago. *Zaito* loans are also indirectly propping up many local governments. Kenneth Benson's Okue thinks a dozen municipalities are effectively bankrupt and rely on *Zaito* funds to cover debts and payroll. It's only a matter of time before the problems of the localities and the govern-

ment corporations end up on the central government's books. One big hit will come in October, when the government assumes \$213 billion in loans from the now-defunct Japan National Railways Settlement Corp. That was a special outfit set up to manage assets and debts left over from the privatization of Japan Rail in 1987. The plan was to pay off the debts by selling off some of Japan Rail's real estate. Yet when the bubble burst, there weren't many takers, and the debt has lingered. "We already have a debt crisis in the private sector," says Schroders Securities Japan economist Andrew Shipley. "The next bomb that will hit will be a debt crisis in the public sector." Eventually, the central government will have to write this debt off, at a huge cost to taxpayers.

SCARY MATH If outstanding loans to government-funded entities, such as airports and railroads, are included, Japan's public debt may be \$11 trillion, or 250% of GDP

The math gets scary pretty fast. Official statistics already place the gross debt of Japan's central and local governments at about 100% of gross domestic product, or \$4.5 trillion. That's one of the highest in the industrialized world. Yet the real debt may equal 250% of Japan's output, or \$11 trillion, figures Oxford University's David L. Asher, who co-wrote a study on Japan's debt mess. Asher reaches that number by figuring in liabilities buried in *Zaito* and other government-controlled corporations, and adding unfunded public-pension obligations, which come to 100% of GDP.

Clearly, the Japanese are masters at running up deficits, and Asher takes a dim view of foreign policymakers who prod Japan to keep spending. "That's like telling a heroin addict to take another fix," he says. Ordinary Japanese and the corporate sector love their debt, too. Corporate balance sheets are burdened with debt levels that run at four times equity, compared with 1.5 times in the U.S. Mitsubishi Motors has \$15 billion in debt, four times its equity. It can service that debt only because it has forgiving banks that are tight with the Mitsubishi *keiretsu*. Meanwhile, Daiwa Research Insti-

TOKYO'S BAY BRIDGE

The LDP has spent billions on public works projects. Many doubt they will pay off



tute has scanned the data of 24 big companies that list their unfunded pension liabilities. Extrapolating from the data, Daiwa figures 40% of pension plans are underfunded.

Among ordinary consumers, thanks to a 70% meltdown in property prices since 1992, households are probably sitting on \$250 billion in paper

losses. And amazing as it seems, land prices and the already depressed Nikkei index may have to fall much further before they accurately reflect the true value of property and corporate assets. Such drops could wipe out an additional \$3 trillion in wealth, on top of the \$10 trillion that already has been va-

porized in the past decade. No wonder consumers refuse spend. "These days, if you have 100,000 yen [\$760], you contemplate carefully what to spend the money on," says Yo Ishikawa, a homemaker and mother of three in the Tokyo suburb of Chiba. "In the past, we would jump on things without giving a careful thought."

PIGGY BANKS. These hidden liabilities help explain why Hashimoto and his LDP are wary of tax cuts. Cuts are a sop to the foreign crowd, because few in Japan think tax breaks will boost consumer spending. "Tax breaks aren't as effective as most people think," says LDP Secretary General Koichi Kaifu. Ordinary Japanese are so anxious about job security, living standards, and retirement that they probably would just sa-

Cover Story

COMMENTARY

By Michael J. Mandel

WHY AMERICA WON'T BE NEXT

It could happen in America, too. That's what some observers are saying about the U.S. economy, which has some disturbing resemblances to Japan's in the late 1980s. In both cases, a substantial boom was propelled by a single leading sector—manufacturing in Japan, high tech in the U.S. Both countries evinced an overflowing confidence. And not least, the stock market in both countries soared to astounding heights. At its 1989 peak, the Nikkei Index was five times its level in the first quarter of 1982. The U.S. market is even hotter—it's up tenfold from the same point (chart). To pessimists, the message is clear: Since Japan saw its bubble burst, the U.S. could easily suffer the same fate.

Pessimists overlook some crucial differences, though. U.S. companies and individuals are less dependent on leverage and debt than the Japanese were. U.S. execs are still downsizing, restructuring, and investing to boost productivity. And there is scant evidence in the U.S. of the excesses and overbuilding that plagued Japan, and for that matter the U.S., in the 1980s.

But there's a more fundamental reason that the U.S. is less vulnerable than Japan was: the quality of its economic policy. With valuations at sky-high levels, it's impossible to rule out the possibility of a sharp decline in U.S. stock prices. But in recent years, U.S. policymakers such as Federal Reserve Board Chairman Alan Greenspan have shown that they understand how to limit the damage of a financial crisis. By contrast, Japan's central bankers, politicians, and bureaucrats still pretend that the economic lessons of the past 70



FED CHAIRMAN GREENSPAN

years—learned at great cost by the U.S. and Western Europe—don't apply to them. That's an important reason why the long decline of the Nikkei sent the Japanese economy into a tailspin.

By itself, a crash is not a disaster. Certainly, financial firms suffer, and consumers cut back. But after a crash, the productive muscle of the economy—factories, human capital—are still there.

The long-term danger arises when a financial crisis feeds on itself. A damaged financial system may not be able to provide the lending and investment needed for growth. In the most extreme case, people stop trusting financial institutions, and financial institutions stop trusting borrowers.

That's what happened in the Great Depression. Based on that disaster, and 70 years of subsequent experience, there's a clear rule book for a central banker faced with a stock market crash or other financial crisis in an otherwise healthy economy.

First, flood the economy with money, because in a crisis liquidity dries up and sound institutions go under when everybody gets scared. Most economists now believe the Federal Reserve's reluctance to open the monetary spigots turned the crash of 1929 into the Great Depression. Second, get the financial system functioning again by closing insolvent institutions and taking bad debt off the books of the private sector.

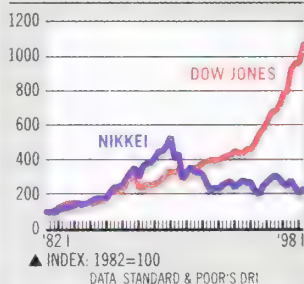
U.S. policymakers have shown they understand these lessons. After the 1987 crash, the Fed pumped large amounts of money into the economy, guaranteeing that large brokerages and banks would not go under. And the savings-and-loan bailout of the 1980s effectively freed up the banking system for the boom of the 1990s.

The same cannot be said of the Japanese. The Tokyo stock market started slumping at the end of 1989, but policymakers kept a tight rein on money growth until well into the 1990s—the same mistake made in the U.S. in 1929. Subsequent inaction allowed this financial crisis to damage the real economy in ways that are difficult to reverse.

Stock markets can dive—that's a normal part of any capitalist economy. Banks can make loans and lose money. But the key is whether policymakers can address the problems—and that's where the U.S. has Japan beat, hands down.

Mandel is economics editor

ONE BUBBLE OR TWO?



Round And Round She Goes,
Where She Stops – We Probably Have An Office.

In over 120 countries worldwide, you have our attention.

ROYAL &
SUNALLIANCE

Royal & SunAlliance, Charlotte NC 28273
Royal & SunAlliance Global, 88 Pine Street, New York, NY 10003
Members of the worldwide Royal & Sun Alliance Insurance Group plc
www.royalsunalliance.com

Providing commercial property and casualty,
personal and specialty insurance coverages

the money from a tax cut. Consumers are already shifting their savings out of banks and into the Postal Savings system, aggravating the problems of private institutions. Judging from the brisk sales of home safes, they also may be lugging suitcases of yen back home. With bank deposits yielding less than 1% in interest, why park your savings in a bank that could go under?

Cash is also disappearing into foreign bonds and equities. Last year, Japanese purchases of overseas equities surged by 77%, to \$13 billion, and, save for a collapse of the bull market overseas, the Japanese should keep up that pace in 1998. But if the outflows grow large enough, the yen could weaken

to 150 to the dollar, from 130 now.

The impulse to hoard or invest abroad

Cover Story

could slowly bring the consumer economy to a stop. Retail sales at department stores are falling by 15% or so a month. "Japanese citizens have the money, but they don't use it because they can't see a future," says outgoing Honda President Nobuhiko Kawamoto. Like other auto makers, Honda is coping with double-digit declines in domestic sales. Meanwhile, personal bankruptcies shot up 21% in 1997, to about 71,299 households. Because of the social stigma of filing, one bankruptcy lawyer, Kenji Utsunomiya, thinks the figure is closer to 500,000.

While consumers stay scared, the banks are unwilling or unable to lend further. Fear is growing that the banks, which have acknowledged \$600 billion in sour loans, are sitting on an additional pile of nonperforming assets. Analysts think many small and midsize companies are just not servicing their loans. Companies sometimes cannot collect debts, either. After Shimizu Corp., a big construction outfit, announced a write-off of \$360 million in doubtful debt, analysts concluded that other construction companies faced a similar crisis.

HARD SLOG. The destructive cycle is reinforcing itself. Many banks are cutting off credit to companies they were once willing to keep afloat. The aggregate debt of bankrupt companies, at 3% of GDP, is higher than the U.S. had during the Great Depression. "This is the worst credit crunch Japan has ever experienced," says Richard Koo, an economist at Nomura Research Institute Ltd. It will get worse. According to some estimates, about \$250 billion in loans is technically sound—but only because banks have lowered interest rates to practically zero to keep customers paying. A chunk of these loans could slip into default at any moment, boosting nonperforming loans to an estimated \$770 billion.

The tax code is contributing to the crisis. High marginal rates encourage companies to report as little profit as possible. Companies borrow heavily to invest more than they should, so they can get rapid depreciation on the equipment they buy and earn big interest deductions on the loans they take out. This system works fine in a rising economy. But

when a crunch comes, the near-total absence of profits turns these companies into debt disasters.

Meanwhile, staggering amounts continue to flow into public works of questionable value. How else to describe a state-funded German-theme park in tropical Okinawa? Or the special roads and airstrips built just for farmers to transport vegetables around Japan? In Fukui Prefecture, the government has spent \$346 million to build a harbor to accommodate 5.9 million tons of cargo a year. Today, it's largely empty, and wags call it "the 10 billion-yen fishing pond."

A WAY OUT? In the months to come, Japan's recession shows how much damage the dysfunctional economy can inflict on the world. A recent Morgan Stanley Dean Witter & Co. report figures that a recession in Japan will clip 2.5% of the region's GDP. It's time, then, for foreign businesses and policymakers to imagine a global economy in which Japan—the world's biggest creditor and Asia's most important player—spends perhaps a further five years in the wilderness searching for a solution to its problems. That means living

with a much weaker yen and securing the global banking system against the shocks of Japanese financial failures.

The Japanese can still work their way out of this trap. But it will take a sustained effort at overhauling the banking sector, letting equity and labor markets finally hit bottom, shaking out a largely unproductive domestic economy that will cause plenty of short-term pain (table). Japan's bureaucrats also need to adjust the world view. For years, the Ministry of Finance has been plotting a strategy to ease Japan into a new era as a pension state. The idea was to supply a graying population with income and security by investing Japan's savings in dynamic economies such as the U.S. and Asia, to make up for slower growth at home.

That strategy is now in tatters with Asia's slump and the domestic debt debacle. Indeed, one big reason policymakers are afraid to write down Japanese assets and debts

is that it would wipe away a big chunk of the principal of Japan's retirement savings. Paralysis results.

As Japan seeks a way out, a current TV hit offers insight on the public mood. Every week, millions tune in to watch a historical drama on the downfall of the Tokugawa shogunate in the 19th century. It's the saga of a military dictatorship done in by indecision, rebellious barons, and the threat of U.S. warships off the coast. The costumed actors act out the unraveling of the old feudal order and the rise of modern Japan.

Some commentators suggest the show's popularity is due to a public yearning for some sort of event that will sweep away the old ways. A few politicians even talk of the need for a great upheaval on the order of the Meiji Restoration of the 1860s, or the arrival of U.S. occupation troops in 1945. Japan certainly has been able to reinvent itself through crisis. But no one seems ready to inflict the kind of shock that the country needs now.

What Needs To Be Done

FIX THE BANKS The banks must submit to independent audits to determine the true extent of their bad loans and mark them to market. Regulators must shut down or sell insolvent banks. A trust fund must sell off bad loans at a discount and auction off distressed real estate.

CHANGE THE ACCOUNTING To determine the true quality of assets and profits, Japanese companies must adopt international accounting standards. That means consolidated balance sheets, pricing assets according to their market value, and opening up books to independent auditors and credit agencies.

REWRITE THE TAX CODE Japan's tax system encourages excessive investment and borrowing by corporations to mask profits. So corporate taxes need to be lowered to international levels.

AUDIT THE GOVERNMENT The government must disclose the true level of off-book liabilities contained in the so-called *Zaito* budget controlled by the Finance Ministry. Bad debts should be disclosed quickly and dealt with.

STOP THE MARKET RIGGING The government must stop using postal savings and pensions to prop up the stock and property markets. Only then will prices accurately reflect the actual value of assets.

DATA BUSINESS WEEK



**A Business Week
Special Advertising Section**

The Business of the PGA TOUR

The PGA TOUR - It's more than Just Golf

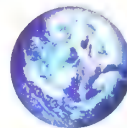
The gentleman's game has never been as popular and inclusive as it is now. With player's charities, a new fan base, and more tournaments than ever, golf's most prestigious organization has it all. That's why Business Week will present this special advertising section in our June 29, 1998 issue. For companies that believe in their power game, this is the perfect stance. With over 5 million* readers nationwide, it's an advertiser's hole in one.

*Source: 1998 Spring MRI

Issue Date: *June 29, 1998*

Ad Close: *May 25, 1998*

For more information please call Bruce Kostic,
Consumer Advertising Manager at 212-512-3461,
or e-mail bkostic@businessweek.com.



BusinessWeek

Most Read. Best Read. Worldwide.

By Robert Neff

WHY JAPAN WON'T ACT TO SAVE ITSELF

From the ashes of World War II, Japan built the world's second-largest and arguably most competitive economy. It seemed unstoppable, and books such as Ezra F. Vogel's *Japan as Number One: Lessons For America* fueled the fear that Japan Inc. would conquer all.

Now, students of Japan are busy figuring out the puzzle of how it has stumbled into crisis and why it seems unable to dig itself out. Some of the best explanations come from the "revisionists." These theorists first explained how the Japanese political economy, operating by different rules from orthodox free-market economies, is incompatible with global free trade. Their ideas explained why Japan would resist all moves to open its markets. Today, revisionists point to how Japan's uniqueness has gotten the country into trouble.

Probably most telling is the argument put forth by Dutchman Karel Van Wolferen. In his seminal *The Enigma of Japanese Power*, published in 1989, van Wolferen says that Japan's government lacks any center of accountability. Conflicting bureaucracies contend for power. Meanwhile, politicians remain toothless. One reason is that parliamentarians can afford only about three staffers each, vs. dozens for a U.S. congressman. Even the Prime Minister's staff is on loan, mainly from the bureaucracy.

This means that in a Confucian tradition where bureaucrats count the

telligence on economic affairs, in effect, from a vested interest. Since the Ministry of Finance (MOF) is devoted to fiscal discipline, its bureaucrats have repeatedly advised Hashimoto to raise taxes. Lacking staff advisers to hammer out an alternate policy, he took the MOF's advice. The resulting

less politicians and vote in a government that stands up to the bureaucrats. But Japan's uniqueness gets in the way here as well. Voters don't cast ballots according to issues. Instead, they vote according to longtime personal contacts. At least 25% of Japan's Diet members are second-,

third-, or fourth-generation holders of the same seats. They get votes because of who their ancestors were, not their positions on issues.

POOR VISION. What's more, the Japanese are preternaturally conservative. Even while the signs of financial distress mount, they lack the sense of crisis that might provoke some action. Since they sit on top of the world's largest household-savings trove of \$10 trillion, that may not be surprising—even though the debt crisis worsens every day. Besides, opposition parties haven't offered a much better vision than that of the long-ruling Liberal Democratic Party, so an increasingly apathetic and risk-averse electorate continues to vote for it.

The web of personal connections in politics is reproduced in corporate practices. In the notorious *keiretsu* system of cross-shareholdings, related companies hold shares in each other, propping up stock values. Banks belonging to the *keiretsu*

keep lending to weak members. Letting these banks fail would cause such a shock that the MOF is terrified of letting that happen.

Politicians who cannot rule. Bureaucrats who cannot regulate. Voters who do not care. Corporations that do not change. It looks pretty dismal for Japan. "There are differences among capitalist systems that are not trivial and that under the right circumstances can blow the system apart," says Chalmers Johnson, one of the leaders of the revisionist school. Japan's uniqueness is now turning into a dangerous liability.



tax hikes stopped Japan's growth in its tracks last year.

The MOF's devotion to fiscal rigor is in general a fine guiding principle. The trouble is, the MOF has another, unofficial priority: protecting the financial industry it is meant to regulate. So the banks' disclosure requirements remain minimal. And, in return for being wined and dined, MOF bureaucrats forewarn the institutions under their care of impending audits. The result: Learning the true state of bank balance sheets is almost impossible. And the MOF has hesitated to disclose the size of the bank problem or release funds to solve it. So the debt crunch just gets worse.

Surely, voters could throw out gut-

Cover Story

most, politicians suffer an information deficit. *Asahi Shimbun*, Japan's most influential daily newspaper, recently did a study showing that Prime Minister Ryutaro Hashimoto met more often during the last fiscal year with the finance vice-minister than with anyone else. The implication: Hashimoto is getting most of his in-

Contributing Editor Neff covers Japanese politics and finance.

**Only pan-European cash
management bank for
Europe's largest airline.**

**First-ever USCP for
any Russian issuer.**

**Largest Saudi Arabian
non-sovereign financing.**

Next?

Financing Clients' Growth in Europe, Middle East, and Africa

Helping clients grow requires detailed understanding of their businesses. Bank of America has the local knowledge and global resources to find creative solutions to challenges ranging from cash management to risk management, capital raising to capital markets. Recent successes demonstrating our capabilities include:

- Pan-European cash management for British Airways
- \$77 million USCP program for Alfa Bank in Russia
- \$2.2 billion expansion project for Saudi Yanpet Petrochemical Company
- \$300 million USCP program for Garanti Bank in Turkey
- ECU 800 million project financing for Gefyra SA's bridge over the Gulf of Corinth in Greece
- \$1.5 billion fully underwritten syndicated loan, Billiton Plc

These are just a few of the ways we've helped our clients innovate and grow. We can do the same for you.

That's power in motion. That's Bank of America in motion.

© 1998 BankAmerica Corporation



Bank of America

www.bankamerica.com

power.
in motion.™

Every business has problems. Are yours the right ones?

The right problems are about your business.

The wrong problems are about your technology.

Example: Why can't I open up the attachment in this e-mail?

Example: Why are Sales and Manufacturing always working from different numbers?

The irony is that the very technology that purports to make you more efficient can sometimes create more problems than it solves.

A Digital_Nervous_System can help.





A Digital_Nervous_System relies on connected PCs and integrated software to make information flow more rich, rapid and accurate. This helps you focus more on your business and less on your technology.

Example: A competitor announces a price cut. You and your team brainstorm a solution online and e-mail a new pricing structure that's immediately accessible to everyone who needs to know. Done.

Example: Your sales people need more up-to-the-minute product delivery information in the field. You get real-time production and shipping data poured into a common database that's secure and Web-accessible by Sales. Done.

This is not something that comes in a box.

You build your own Digital_Nervous_System, over time, to meet the unique and changing needs of your company.

The foundation of any Digital_Nervous_System is software that acts alike, works alike, thinks alike. Microsoft® Windows®, Office® and BackOffice® provide an ideal foundation for a Digital_Nervous_System because we built them from the ground up to work with each other, as well as with an industry's worth of applications.

In the end, you'll spend more time with the problems that matter.

Where do you want to go today?*

Microsoft

www.microsoft.com/digital_nervous_system

THEY'RE NOT AS LOONY AS THEY LOOK

P-e ratios are loftier than ever. But don't bail out just yet



Worried about the sky-high stock market? For years, investors who sweated about that could look to the market's price-earnings ratio and take at least some comfort. Through last year, even as p-e ratios climbed, they were still below the old high of 23 hit in the early 1990s. But in 1998, prices accelerated far faster than earnings. Now, the market's p-e of 26.7 for the Standard & Poor's 500-stock index, sits at a level that, to many, defies logic.

But don't head for the hills just yet. Those p-e's didn't climb to Himalayan heights on mindless speculation. Stock price multiples are high for good reasons. Over the past three years, reported earnings have grown by more than 50%. Long-term interest rates have fallen from nearly 8% to less than 6%, even as gross domestic product expanded; and inflation has dropped from 3.3% to 1.4%.

"Sure, p-e's look high by historic standards," says Richard Bernstein, chief quantitative strategist at Merrill Lynch & Co. "But how many times in the market's history have you had a combination of GDP growth in excess of 4% and inflation under 1.5%?"

HALCYON DAYS. Not many. The years 1961-64 fit the bill, and during that period, the average p-e for the S&P 500 was 19. But in the early 1960s, economically sensitive manufacturing and natural resource companies loomed large in the market. Today's market is dominated by technology, consumer-product, and service companies with less dependence on the economic cycle and more predictable earnings. In addition, the economy—now in its eighth year of expansion—is proving to be far less volatile itself.

Given these almost ideal economic conditions, what is the appropriate p-e for the stock market? That's one of the thorniest questions in investing. Market watchers don't even agree on what number should be plugged into the p-e denominator. Most of the time, the quoted p-e's are based on the past 12 months' earnings. That's a firm number that investors can find in the stock tables every day. But A. Marshall Acuff Jr., equity strategist at Salomon Smith Barney, says it's useless. "Investors look ahead, not back," says Acuff. "Why use a historical number?"

Factoring in projected earnings, the S&P looks a bit more attractive: a p-e of 21.7, according to First Call Corp. But

Those multiples are high for good reason: How many times

's based on projected earnings are usually lower than those based on trailing earnings, because analysts usually predict profits will go up. The forward p-e is up from 17.1 a year ago, a 27% rise, but that's still less than 39% gain in stock prices. How does a 21.7 p-e based on forecast earnings compare with the early 1960s and other periods of high stock valuation? "We just don't know," says Stanley Levine, director of quantitative research at First Call. "Wall Street didn't even start collecting earnings estimates until the early 1970s."

Still, any way you slice it, a p-e of 22 on forward earnings is a big number. And it's most troubling for market veterans who struggle to grasp the idea that the economy is in a new era of high market valuation. "I have over 40 years of investing experience, and it has been a predicament right now," says Robert H. Stovall of Stovall/Twenty-First Advisers. "I looked at p-e's and thought they were high, but 32-year-old managers don't see that problem. They keep on buying, and so far, they've been right."

Stovall thinks high p-e's can be justified for many of the brand-name stocks that have high-quality products and global distribution—such as Coca-Cola, Petco, and Microsoft—in an era of low interest rates and slow global economic growth. He continues to hold such stocks but is putting new money to work in less glamorous companies such as Chiquita Brands International Inc. and Midway Airlines Corp.

ORIENTAL. Edward M. Kerschner, of NewWebber Inc.'s chief investment strategist, argues that many investors have underestimated the power of the market because they haven't propagated the impact of lower interest rates and lower inflation. Kerschner says the fair value of equities increases at an accelerating rate as inflation falls. Consider a company with a 15% earnings-growth rate when inflation is 5%. Kerschner says its p-e should be about 30. Cut the inflation rate to 3%, and the p-e for that 15% earnings growth doubles to 60. Cut inflation another point, to 2%, and the fair p-e jumps to more than 120. Says Kerschner: "Just as with a bond, when you lower the rate at which you discount the earnings, the value increases exponentially."

Another market veteran, Kenneth Saffian of Saffian Investment Research, doesn't think the S&P gives a good picture of the market. Instead, Saffian uses

an average of 30 large growth stocks and adjusts p-e's for debt. His reading: The p-e is now 39, compared with 35-36 at other market peaks. Still, he says, interest rates are low enough to allow p-e to notch up to the low 40s before the market is dangerously overvalued.

There's some evidence, too, that the lightning-like runup of large-cap growth stocks is distorting p-e's for the market as a whole and that the average investor's portfolio has a more reasonable multiple. Martin M. Hertzberg, director of research at DAIS Group, says if

you calculate the p-e's of the S&P 500 companies equally instead of weighting them by the market value of the companies, the p-e ratio is more modest—just 21.6, nearly 19% lower than the current 26.7. "The General Electrics and Microsofts are drowning everything else," says Hertzberg. That suggests that while the S&P 500 has a high valuation, most portfolios, which are equal-weighted rather than capitalization-weighted, are more reasonably priced.

SQUASHED THUMBS. In considering the p-e question, the biggest trap that investors can fall into is to rely on age-old rules of thumb that once worked but no longer hold up. The dividend-yield rule—sell when the market yield drops below 3%—would have sidelined investors six years ago. The price-to-book-value yardstick broke when the composition of the market changed from asset-intensive manufacturing to asset-light but knowledge-intensive service and marketing companies.

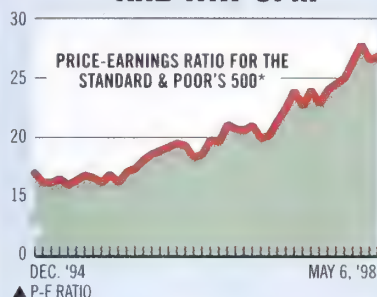
With this in mind, says Kerschner, it's a foolish rule to assume, just because the long-term average p-e is 15, that p-e's must return to that average. "My average age is 23, but I'm never going to be 23 again," laughs Kerschner. "That 'reversion to the mean' thinking is a naive assumption. That was what investors did when they didn't have any better way to analyze the market, so you'd assume the average. With the computers and information we have today, you don't need to do that."

Merrill's Bernstein looks at the stock market's p-e through many models, and, he admits, right now the answers are a mixed bag. "The market's high," he says, "but not apocalyptically overpriced as it was in 1987." Back then, interest rates were moving toward 10%. He says perhaps the most prophetic numbers come from the audiences of investors he meets. "I always ask how high they think inflation is, and they usually come in at 2.5% to 3%," he adds. "The real number is half of that."

That, says Bernstein, means inflationary expectations are far too high. "A resurgence of inflation could kill the p-e's, but where is it going to come from?" he asks. And a recession would also deflate the p-e's, yet that seems just as unlikely, given the current economic scene. So p-e ratios, high as they are, still seem justifiable—and who knows, they may even have room to expand.

By Jeffrey M. Laderman in New York

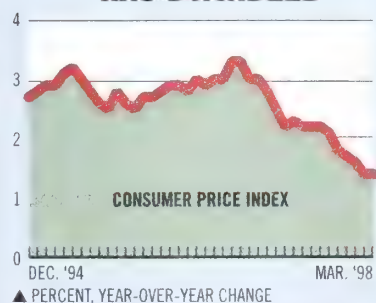
PRICE-EARNINGS RATIOS ARE WAY UP...



...BUT INTEREST RATES ARE DOWN...



...AND INFLATION HAS DWINDLED



*BASED ON MONTH-END PRICES AND TRAILING 12 MONTHS OF EARNINGS
DATA: BLOOMBERG FINANCIAL MARKETS

...you had growth above 4% and inflation less than 1.5%?

COMMENTARY

By Gary Weiss

HOW THE SEC IS PASSING THE BUCK ON MICROCAPS

At first glance, it seems like a perfectly intelligent, common-sense way of dealing with microcap fraud. Simply beef up the rules governing "market makers" who trade over-the-counter stocks, and require them to learn about the stocks they trade. They should study the companies' financial statements and keep an eye peeled for fraud. And if they find evidence of chicanery? Well, they should drop such cruddy stocks, and fast.

This little-publicized proposed change in securities law is a crucial component of the Securities & Exchange Commission's campaign against microcap fraud. It targets a vast, trouble-plagued segment of the market—8,600 stocks trading on the OTC Bulletin Board and Pink Sheets, which include stocks too small to be traded on the stock exchanges or NASDAQ. Such stocks account for \$20 billion in volume a year. Traders have long noted that OTC stocks, many little more than fictitious "shells" disguised as legitimate companies, are a hotbed of fraud and manipulation by shady "chop house" brokers (BW—Dec. 15, 1997).

Comments have begun to pour into SEC files in recent days, and the reaction is predictable: Wall Street hates it. Critics include the Securities Industry Assn. and the National Quotation Bureau, which publishes the Pink Sheets. Major Street firms are expected to weigh in against the proposal in coming days.

CRUSHING LIABILITY. Proponents, mainly state regulators, say the idea is a major step forward in the war against securities fraud. But Street critics argue that the proposal is overly broad—covering bonds, closely held corporations, and foreign issues as well as small stocks. They say it would curtail liquidity in the market for microcap stocks. Downplayed in the comment letters is the Street's primary concern—potentially crushing

liability from lawsuits by disgruntled investors.

The securities industry's opposition is, of course, self-serving. But this time, the Street is right. The agency's proposal is an awful idea. It would indeed reduce liquidity and would do painfully little to fight microcap fraud. The proposal would even play into the hands of scamsters—by discouraging short-selling of seuzzy stocks.



The SEC proposal wouldn't fight fraud —and might even play into scamsters' hands

Market makers can't be lumped together with the brokerages that clear trades for microcap firms, who often are the first to see the "red flags" of stock fraud, such as massive commissions and markups. Regulators are—correctly—working on ways to force clearing firms to pass on evidence of stock fraud. But in this proposal, the agency seems to be trying to pass the buck—shifting onto brokers the SEC's responsibility to halt trading in shady OTC stocks. Asserts R. Cromwell Coulson, chairman of the National Quotation Bureau: "Market makers should make markets.

Regulators should regulate markets."

At issue is Rule 15c2-11, adopted in 1971 as a way of curtailing traffic in outwardly bogus OTC stocks. The regulation requires a market maker to peruse a company's financials if it is the first firm to trade that stock over-the-counter. The SEC now wants the rule extended to all brokers who make a market in OTC stocks—not just the first to begin

trading such stocks. After reviewing financials, says the SEC, "responsible broker-dealers should refrain from publishing quotations for questionable securities."

MANIPULATION. That's just what the scamsters want. When shady brokers dominate the market for a stock, they don't want "responsible broker-dealers" hornning in. They want their stocks traded by fellow "chop-house" brokers, whom they can count on to manipulate prices. And since the rule would prevent market makers from issuing quotes if they think

the stock is fraudulent, it would dissuade, if not prohibit, short-selling—the bane of stock scamsters. (Most short-sellers of OTC stocks are market makers.) "Why do they want us to investigate stocks? Why doesn't the SEC pass a rule requiring themselves to do that?" one short-seller/market maker asks caustically.

Why indeed. The way to stamp out OTC stock fraud is for the SEC to work more closely with federal and local prosecutors and put scamsters behind bars. The SEC should also act more vigorously to halt trading in shady OTC stocks, and extend that authority to the National Association of Securities Dealers—a move supported by state regulators. Shifting that burden to market makers is more than just an ill-conceived idea. It actually would lend a hand to the scamsters the SEC is trying to fight.

Senior Writer Weiss covers securities fraud.

WHAT'S MAKING K-TEL BOOGIE?

Internet fever and short-sellers seem to be driving the action

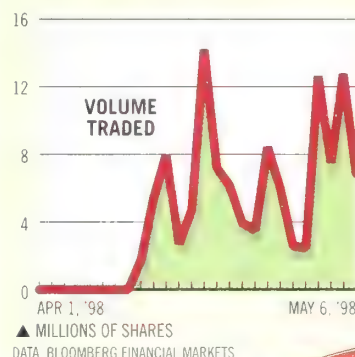
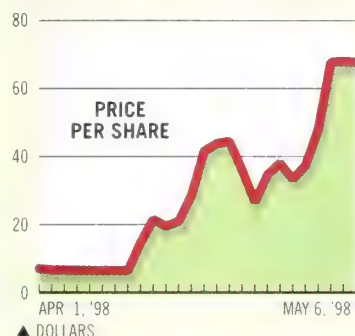
The way the stock of K-TEL International Inc. has rocketed lately, you might think the music retailer has been hyping shares on late-television. Something about its commercials for music compilations: "If you buy K-TEL now, we'll throw in a collection of disco from the 1970s—plus a full-color annual report!" After all, as recently as Apr. 8, Minneapolis-based K-TEL was residing anonymously in NASDAQ's lower reaches, trading at 6¢ on a paltry volume of shares. Less than a month later, share price had risen tenfold, with trading volume on Apr. 20 blasting 14 million shares (charts). On May 1, K-TEL shares vaulted by 19%, to 11¢, hitting a new high of 67¢. A day later, the stock exhibited wild swings: down 6 points early in the morning, up 8 to 10 in the afternoon, then down again just before the closing bell. Final tally: up ½¢, on a volume of nearly 13 million shares.

What makes this all the more curious is that K-TEL has only 3.8 million shares outstanding—a razor-thin float. More than 70% of those are held by Chief Executive Philip Kives and other insiders. All of which gives credence to widespread speculation that K-TEL is being caught in a colossal short squeeze. K-TEL's executives refused comment. So did its people at NASDAQ and the Securities & Exchange Commission. Some traders see signs of manipulation. "There are individuals who will use the Internet for companies with thin floats, thin market capitalizations, very little in the way of investor activity," says Tony Elgindy, chairman of West Securities Inc. in San Diego. "I think they will create an aura around these situations." David Barney, editor of *Stock Investor Trading News*, a tiny (Tex.)-based Internet newsletter recently issued two "strong buy"

recommendations on K-TEL, says he has been fielding calls from people wondering how he's manipulating the stock, a charge he vehemently denies. "We came out with a \$100 price target for the stock," he says. "But that was a 12-month target, not a 12-day target."

Elgindy, a known short, says he reversed his sell position on K-TEL after

K-TEL'S SUDDEN SURGE



the stock closed at \$21.125 on Apr. 16, and reckoned then that it could rise as high as \$50 in the following 12 months. Elgindy reversed course again on May 1, when he terminated coverage of the stock with a sell rating.

K-TEL's fundamentals are certainly no great shakes. For the nine months ending Mar. 31, it earned \$693,000, or

9¢ a share (reflecting a recent 2-for-1 split), on sales of \$64.8 million. Says Michael Murphy, editor of the *Overpriced Stock Service* newsletter: "We now have a market capitalization of almost \$300 million on a company that in a really good year can earn something like \$4 million."

"SOMETHING IS ROTTEN." The many online investment message boards contain a lively discussion of K-TEL's stock performance. "Something is rotten in Denmark," wrote an investor at The Motley Fool Web site. "Right now, it's not even a stock, it's a trading machine," says Barney. Adds Axxel Knutson, managing director of Janssen/Meyers Associates in New York, one of the few Wall Street houses to follow the stock: "Anytime you see something like this happening, you know investors are in there smoking something."

K-TEL's leap from oblivion to the spotlight began on Apr. 9, when it unleashed plans to sell compact disks on the Web. From that point on, albeit with a few steps backward en route, the stock headed due north. The new site, called K-TEL Express (www.ktel.com), was launched on May 1 and generated a million visits in its first three days of operation. K-TEL also recently struck a deal with BPI Communications Inc. to display the *Billboard* music charts at the site and reached an agreement with RealNetworks Inc. to help consumers create customized CDs online.

But such developments belie the fact that most folks think K-TEL's share price is ready for a fall. Some investors plunged in, analysts suggested, even after *Barron's* ran a negative writeup on the company in its Apr. 20 issue, luring a horde of short-sellers.

Knutson is so convinced that K-TEL's stock is overvalued that he put a prohibition on accepting buy orders. "If we see something that is patently unsuitable and irrational, we have an obligation to refuse the order," he says.

Indeed, when one client tried to buy 10,000

K-TEL shares when the stock was trading at around \$45, "we gave him Merrill Lynch's phone number," Knutson says. Given where

K-TEL's stock has gone since, that's one customer he may not be hearing from again.

By Edward C. Baig in New York, with Gary Weiss



ANALYZING INFORMATION



CRYSTAL REPORT

Does your information offer more *mystery* than *clarity*? Then maybe you should know about Seagate's business intelligence tools. Software that lets you access, compile and analyze data, and turn it into wisdom. And then lets you easily share your brilliance (even if you say so yourself) with anyone you choose. Anywhere in the world. Seagate Crystal Reports®, Seagate Crystal Info® and Seagate Holo®. They're just some of the ways Seagate hardware and software give you information, the way you want it. To find out more, visit us at www.seagate.com/bwc.

Seagate, the Seagate logo, the tagline, Seagate Crystal Reports, Seagate Crystal Info and Seagate Holo are registered trademarks or trademarks of Seagate Technology, Inc.



WHERE YOU WANT

 **Seagate.**

Information, the way you want it.

COMMENTARY

By David Greising

WHEN BANKS ACT LIKE BROKERS, WHO REGULATES?

The abusive atmosphere at the securities division of NationsBank Corp. in the early 1990s was shocking even for veteran stockbrokers. Working at the bank's branches, several recalled, they were told to hawk NationsBank's investment products to bank customers without explaining that they were brokers, not bankers. When elderly customers came in to roll over jumbo certificates of deposit, bank tellers got a cut of the commissions for turning them over to brokers who sold them NationsSecurities' risky closed-end bond funds instead.

When NationsSecurities' brokers complained to their bosses, say ex-employees, they got the brush-off. According to the ex-brokers, Charles King, then executive vice-president of NationsSecurities, told them to keep selling; sales targets would be raised, he warned, not lowered. Meanwhile, the main fund they were hawking, Nations Term Trust 2003, lost 35% of its value in just seven months, in part because of investments in risky derivatives. They later regained the losses.

When BUSINESS WEEK first reported the troubles at NationsSecurities nearly four years ago, NationsBank,

paid to settle class actions in two customer and administrative complaints in Florida, Texas, and South Carolina.

But let's not cheer regulators for their aggressive enforcement just yet. The bank got off easy. Our balkanized regulatory system's rules would have made it difficult to hold personally responsible top bank executives such as CEO Hugh L. McColl Jr. and other officials for a bank's misdeeds. The case

from Beltway-speak, that means bank divisions that act like brokerage firms would be regulated as brokerage firms.

It's an idea whose time is long overdue. Banks have pushed to stay under the umbrella of banking regulators, who have precious little experience with brokerage derring-do. But in an era when every ambitious bank is copying the playbook of Merrill

Lynch & Co., not J.P. Morgan & Co., that's a recipe for regulatory oversight. It leaves regulators unable to stop sleazy selling practices by stockbrokers dressed in bankers' pinstripes. Paul V. Gerlach, associate director for enforcement at the SEC, says misdeeds like those at NationsSecurities "are not an isolated problem." And the SEC has a hard time cracking down because banks "are not subject to the full panoply of securities laws."

INTIMIDATING. The challenges for regulators grow more daunting as banking-industry consolidation accelerates. Given its proposed merger with BankAmerica Corp., NationsBank is set to become one of the country's largest brokerage firms. The pending merger of Travelers Group and Citicorp would bring the entire Salomon

Smith Barney operation under the umbrella of banking regulators. Other big banks have already acquired their own brokerages or are expected to do so soon. David Cray, a former NationsSecurities broker, now an independent broker, who first brought charges against the firm four years ago, frets that big banks intimidate regulators. "Any one agency alone can be frightened of an institution as large and powerful as NationsBank," Cray says. But if regulatory reforms cause all the agencies to work together, they might have the clout to frighten even the giants like NationsBank.

"Any one agency alone can be frightened of an institution as large and powerful as NationsBank"

DESPITE PAYING \$6.75 MILLION, THE BANK GOT OFF EASY

based in Charlotte, N.C., denied any improper sales practices and said it had no problem with procedures at NationsSecurities. But on May 4, the bank forked over \$6.75 million to settle administrative proceedings without admitting or denying allegations of misleading sales practices brought by banking and securities regulators. King and two other bank officials personally were fined and suspended as brokers for up to six months. King could not be reached for comment. The bank says the settlement "puts the issue behind us."

Those fines come on top of more than \$60 million NationsBank has

shows how difficult it is to regulate stockbrokers working for banks, in part because bank regulators usually lack the skills or the inclination to root out securities fraud.

The timing of the NationsBank settlement may prove opportune, though. It could add much-needed weight to calls for reform as Congress, starting this month, considers a bill to modernize banking regulation. As part of an effort to bring Representative John D. Dingell (D-Mich.) on board, Republicans have agreed to accept a series of amendments that would strengthen "functional" regulation of financial services. Translated



Greising covers banking from Atlanta. Paula Dwyer in Washington contributed additional reporting.



 **CERTIFIED**
Pre-Owned

ONLY AT YOUR LEXUS DEALER

© 1998 Lexus, a Division of Toyota Motor Sales, U.S.A., Inc. Lexus, Lexus emblem, and L are trademarks of Toyota Motor Sales, U.S.A., Inc. in the U.S. and other countries. All rights reserved. 40,000-mile warranty coverage for Lexus CPO vehicles. See your CPO Lexus dealer for details on the limited warranty, available finance rates, and Roadside Assistance.

FOR AD RATES AND INFORMATION
PHONE: (312) 464-0500
FAX: (312) 464-0512 OR WRITE:

BusinessWeek

MARKETPLACE

BUSINESS WEEK MARKETPLACE
500 NORTH MICHIGAN AVENUE, SUITE 2010
CHICAGO, IL 60611

Residential Roofing

A
LIFETIME
OF
beauty

Country Manor Shake
Aluminum Roofing

Wood Shake Look · Five Natural Colors
Fire Safe · Energy-Efficient · Lifetime Warranty
A Permanent Improvement to Your Home!

For more information, call Perfection

1-888-788-2427

Stress Relief Products

PROTECT YOUR EXECUTIVES
WITH A SHIATSU MASSAGE

*Reg. \$60 Chiropractic
Massage for just
\$1 when you own
or lease this Chair!



*Get Full Details Today!
Panasonic Massage Chairs Direct
Nationwide **800-353-9917**

Travel

Carlson Wagonlit

Atlantic & Pacific Travel
LOW FARES AND PACKAGES
HAWAII, ASIA & PACIFIC

1-888-537-9966 - Toll Free
(808) 531-4825 - Fax

e-mail: atl@pacw@worldnet.att.net
www.carlsonhawaiiitravel.com

Corporate Gifts

Logo Tattoos!



1000 Temporary Tattoos with your Logo,
Just \$189.00!!
plus \$10.00 S&H (CA add 7.25% sales tax)
Customized! Full Color! 2" x 2"

Calico

3000 Alamo Drive, Ste 201 • Vacaville, CA 95687
Tel: 707/448-7072 • Fax: 707/448-8273

Home Furnishings

BUY DIRECT!

from North Carolina, furniture
capital of the world. Shop and
save. In home delivery. Over 400
manufacturers to choose from.

HOMESIDE FURNITURE COMPANY
P.O. Box 1548, Mt. Airy, NC 27030
(800) 334-9094 (336) 786-6151

Cigars

CUBAN CIGARS

DELIVERY ANYWHERE
Canada 416-966-0040

Computer Equipment

HEWLETT-PACKARD
Buy-Sell-Trade

LaserJet Colorpro Draft Master
DeskJet Draftpro DesignJet
Electrostatic Plotters Ruggedwriter

HP 9000 Workstations & Vectras
Demo & Refurbished Equipment
Ted Dasher & Associates

PO Box 131269 Birmingham, AL 35213-6269
Phone 205/263-4747 Fax 205/263-1108
800/638-4833 • E-mail: sales@dasher.com

Corporations

We BUY Your PC's

Any Brand, Any Quantity
Will TRADE for New Equipment
1719 2nd St. SW • Wyoming, MI 49709
616-249-3512 / EMAIL: jrbryan@windom.com

Corporate Promotions

**Inexpensive Corporate Giveaways
that REALLY work - don't get
thrown away!**

Custom Designed Leather Bookmarks

Clients love them and are constantly
reminded of YOU. Visit our Web Site
www.leatherbookmarks.com

OR

Send us your logo. We will suggest a layout
and send you a typical sample free of charge

AMEROPEAN CORPORATION

7 Corporate Dr., 109C North Haven, CT 06473
Tel 203 239-0448 Fax 203 234-8820

Franchising

**Franchise
your business!**

Call for information on franchising and
"Franchise Your Business!" seminars
scheduled throughout the country.

francorp

Specialists in Franchise Development BW
1-800-FRANCHISE (1-800-372-6244)

Education/Instruction

**AWARD WINNING
DISTANCE
EDUCATION**

MBA & MS Degrees

Executive Education



800.441.4746

www.isumu.edu

Accredited by the
Distance Education Training Council

MBA BY DISTANCE LEARN

Major British university offering accredited Master's
Bachelor's or GMAT needed. Chosen by Economist
Intelligence Unit as one of world's best MBA programs

HERIOT-WATT UNIVERSITY | (800) MBA-01
North American Distributor | Ask for ex
6921 Stockton St, Suite 2, El Cerrito, CA 945
For immediate FaxBack literature: from y
fax machine's phone, call (510) 486-890

EARN YOUR COLLEGE DEGREE AT HOME

- ACCREDITED B.S., M.S. AND M.B.A.
- Bachelor's Degree in Business Administration, Major in
Psychology, Paralegal Studies & Criminal Justice
- Approved by major companies

FREE LITERATURE
1-800-767-CHAD
www.chadwick.edu

CHADWICK
UNIVERSITY

Business Services

**OFFSHORE
CORPORATIONS**

- ◆ Protection, Privacy, Tax-Free
- ◆ Nominees, Bank Accts, Credit Cards
- ◆ Lic. Offices: Las Vegas - Nassau
- ◆ Flat Rate Fees, Nevada Corps. \$95

ORDER BY PHONE FREE INFO
1-800-997-2550

SAVE 30% to 50%

**3-TO-A-PAGE
BUSINESS CHECKS
&
LASER/INKJET
COMPUTER CHECKS**

Call for a FREE brochure
1-800-239-4087

DESIGNER CHECKS
www.designerchecks.com

100% SATISFACTION GUARANTEED

INCORPORATE

- FREE Information
- All U.S. States and Offshore
- Attorney owned and operated

1-800-672-9110

www.corporations.com

TRADEMARK

RESEARCH REPORTS

20,000 ACADEMIC TOPICS AVAILABLE!

Send \$2 for the 290 page catalog

Custom-written reports also available

RESEARCH ASSISTANCE

11501 1st Ave. #200

Los Angeles, CA 90025

TOLL FREE HOTLINE: 800-351-0222

http://www.research-assistance.com

Business Services

**INCORPORATE
BY PHONE!**

For as little as \$39 plus state fee
we will form your Corporation online
in **any state**. Last year our compa
nies incorporated over 100
businesses. We specialize
assisting first-time incorpora
In as little as **5 minutes**
the phone we'll take your order
in most states you will be incor
rated in just 24-48 hours. No fo
to fill out, we do all the work!

Call now to set up your compa
or get our **free** guide to incor
rating today!

800-877-4222

302-998-0598 • FAX 302-998-7
www.corporate.com • CompuServe: G

Email: info@corporate.com

C CORPORATE AGENTS,
Since 1899

We incorporate everybody

FOR AD RATES AND INFORMATION
PHONE: (312) 464-0500
FAX: (312) 464-0512 OR WRITE:

BusinessWeek

MARKETPLACE

BUSINESS WEEK MARKETPLACE
500 NORTH MICHIGAN AVENUE, SUITE 2010
CHICAGO, IL 60611

Business Opportunities

MAKE MONEY AS A BUSINESS FINANCE CONSULTANT

Manage *Business Loans* and *Equipment Leases* from \$1,000 to \$1 million. No co-brokering. Work directly w/National Lenders. Unlimited earnings potential and dual income.
OR brochure and FREE computer disk
CALL 1-800-336-3933
The Loan Consultants, Inc.

RIDE THE DEREGULATION WAVE!

Need sales agents to cash in on electrical deregulation. Sell our equipment to mid-sized customers. Sales kit \$75. money back guarantee. More details:
www.powergy.com
Powergy, 111 Chestnut Street
Providence, RI 02903-4151

I MADE OVER \$1,000,000 LAST YEAR...

...in a zero stress, relaxed, ideal lifestyle, simple, home-based business! Now I want to teach 2 highly motivated persons in your area my turn-key system. Call my

24 Hr. Hotline 800-331-0312

Business Financing

GET CASH FOR INVOICES Finance Your Accounts Receivable

Low Rates • No Hassles • No Financials
We can customize financing to suit your company
AeroFund Financial, Inc.
(800) 747-4234

Financial Services

Your Legal Fortress

- Alternative Estate Planning
- Unique Cost Effective
- Tax Income Optimization

Solid, Specialty Legal-Financial Techniques used to protect anyone's Income, Assets, Legacy from Public or Private Challenge
(800) 935-5171 x3863 (xFUND)

DON'T MISS THE OPPORTUNITY TO ADVERTISE IN THE BUSINESS WEEK MARKETPLACE AND REACH OVER 6 MILLION RESPONSIVE READERS WITH THE EDUCATION, FINANCIAL ABILITY AND INTEREST TO RESPOND TO YOUR OFFER.

The next MarketPlace section closes on April 27th for the June 8th issue.

For rates and information contact:

Business Week MarketPlace
500 North Michigan Avenue
Suite 2010
Chicago, IL 60611
Phone 312-464-0500
Fax 312/464-0512

Business Opportunities

CONSULTANTS

International firm expanding in US needs independent consultants to represent our company. We offer some of the finest Training and Development processes available today. Very high income potential. Extensive training and support. Management, marketing, or consulting experience helpful. Send resume or brief personal history to:

RESOURCE ASSOCIATES CORPORATION

D.L. Engle, VP Development
Department WB805
31 Hickory Road
Mohnton, PA 19540
(800) 799-6227, Ext. 12
FAX: (610) 775-9686

Sports Equipment

Tennis Tutor
Portable Ball Machine
#1 Worldwide from \$699
800-448-8867
www.sportstutor.com

Menswear/Fashion

MEN'S WIDE SHOES
EEE-EEEEEE, SIZES 5-13
FREE catalog • High quality • 160 styles



HITCHCOCK SHOES, INC.
Dept. 55E Hingham, MA 02043
1-800-982-WIDE www.hitchcockshoes.com

Boarding/Prep Schools

RIVERSIDE MILITARY ACADEMY

EXCELLENCE IN COLLEGE PREP
SINCE 1907

- Honor JROTC school with distinction
- Safe, structured, all boys boarding Environment
- Grades 7/12, full accredited, small classes, Weekly report cards
- Promotes leadership, self-confidence, and Manners



- Computer in every dorm room
- Full athletic program
- Band, Fine Arts, and Aviation
- Affordable Tuition
- Located on Lake Lanier in North GA
- www.cadet.com

FOR MORE INFORMATION CALL **1-800-GO-CADET**

Books / Videos

WHAT'S THE SMARTEST \$19.95 INVESTMENT YOU'LL EVER MAKE?



It just may be this fascinating book, written by one of

the country's top money managers. You'll find useful information on inflation, insurance, budgeting, investing and debt reduction — and the steps you can take to reach your financial dreams. Just \$19.95, including shipping and handling.

To place your order, or for a free brochure, call:
1-800-234-3445, ext. 154
DEER PUBLISHING, INC.

"Superb advice from the ultimate pro"
Malcolm S. Forbes Jr.

Publishing

Have you written a BOOK?

Being a published author can be a huge boost to your career. We are the absolute publisher with a big difference. Call for our brochure (800) 648-2646 or check out web site listed below.

www.LondonBooks.com

BY GENE G. MARCIAL

PROWLERS AT PITTSTON BRINKS?

Remember Brinks armored cars? They're now a part of Pittston Co. called Pittston Brinks Group (PZB). Pittston Brinks stock, currently at 39, was created in January, 1996, to reflect just the results of its security unit.

AN OFFER MAY SET OFF ALARMS



DATA: BLOOMBERG FINANCIAL MARKETS

(Pittston has other such tracking stocks: Pittston Burlington and Pittston Minerals.) Less well-known than the armored cars is Pittston Brinks's other arm: the home burglar alarm business. That's the part catching the ear of some major investors. Why? In home security, Pittston Brinks was second only to Tyco International's ADT, but recent takeovers have pushed it down to No. 4. So they think Brinks is bound to be part of the industry's consolidation.

Whispers are that a biggie is poised to pounce on Brinks's home-security operation, which last year provided 16% of sales but 40% of earnings. One New York investment banker figures the unit is worth 50 a share, based on monthly recurring revenues, subscribers growth, and adjusted earnings. After Tyco, major players include Ameritech, Alarmguard, and Western Resources, which bought 80% of Protection One in 1997.

Analyst Jeff Kessler of Lehman Brothers thinks the stock is trading well below its breakup value of more than 60, and says "the value of the residential-security unit continues to increase."

Some investors snapping up shares argue that Pittston Brinks is cheap relative to the value of its home-security business. This unit, serving 511,000 U.S. and Canadian households, isn't getting the proper valuation, they say, because it is part of a larger company.

To put Brinks's home-security on an even footing with its rivals such as Protection One and Alarmguard, the unit needs to either be sold or spun off from Pittston Brinks. Tiger

Management owns more than 7% of Pittston Brinks, and Fidelity nearly 5%. Pittston spokesman Frank Hartough says the company is very shareholder-oriented but won't comment on whether it has gotten an offer for the burglar-alarm unit.

LAUDER IS PICKING UP LOTS OF PHONES

Cosmetics heir and onetime New York mayor hopeful Ronald Lauder is off and running—this time in a global telecom race. He has formed RSL Communications (RSLCF) to take advantage of the deregulation of domestic and overseas markets. So far so good: From \$4.7 million in 1995, sales zoomed to \$300 million by 1997. Analysts project revenues of \$590 million in 1998. Its stock, down to 17 in early February, has snapped back to 29.

What's going on? Lauder, chairman of Estée Lauder International, and RSL co-founder CEO Itzhak Fisher raised \$1 billion in two years to build a telecom giant. Since then, a series of rapid-fire acquisitions has built a global network—including an Internet protocol and phone system. RSL targets small and midsize businesses in 19 countries for its services—long distance, calling card, and Internet communications.

A German money manager says RSL will soon form a joint venture with Germany's Metro Holding, a major retailer, to market RSL's services in Europe. "This venture has a potential worth of millions of dollars for RSL," he says.

SUDDENLY, A GLOBAL NETWORK



DATA: BLOOMBERG FINANCIAL MARKETS

"RSL is one of the few pure plays in international telecoms," says Bruce Roberts of SCB Warburg Dillon Read, who notes that RSL's goal is quite modest "but powerful"—gain a 2% to 3% share of the world market in five to seven years by being first or second in each country it enters.

Roberts thinks RSL will hit its target: a 2.5% to 3% share by 2005. He says this implies \$2.8 billion in revenues and \$359 million in earnings before interest and taxes, up from 1997 sales of \$300 million and a loss of \$100 million.

Edward Greenberg of Morgan Stanley Dean Witter predicts RSL will be in the black as early as 1999, when it sees earnings of \$35.4 million—more than \$350 million by 2003. RSL Internet network "could be a source of considerable upside potential," says Greenberg.

FURNITURE GOING CHEAP

Audrey Jones is a real bottom-fisher. She scours the lowest 5% of stock for hidden values with market capitalizations of \$10 million to \$350 million. "Sometimes a bit higher," says Jones, investment manager at Morgan Grenfell Capital Management, which runs a



BOTTOM-FISHER:

Jones looks beyond top-drawer stocks

ple of micro-cap funds that have outscored the large and small cap indexes lately. "We buy growth cheap, and we also see value plays," says Jones, "but stay away from Internet stocks."

Jones has four bargains—not

biotech, pharmaceuticals, or technology but in home furnishings: CompX International (CIX) and Krause's Furniture (KFI). "We're looking for unusual companies in fast-moving markets," says Jones. CompX, the largest maker of ergonomic computer accessories and the second-largest maker of precision bearing slides for drawers, outpaces the office-furniture industry: The company is growing at a yearly rate of 14%, compared with the industry's 8.5%. Given a strong balance sheet, says Jones, CompX is poised to make acquisitions for faster growth. Jones expects earnings of \$1.50 a share this year and \$1.75 next vs. 1997's \$1.09. The stock, now at 38, should hit 40 in a year, she says.

Krause's makes custom upholstered furniture, marketed under the name Krause's and Castro Convertibles. The company has tried to improve margins by raising prices, cutting promotional discounts, and improving manufacturing efficiencies. Jones expects a big jump in earnings—from 7¢ cents a share in the year ending Jan. 31, 1999, to 42¢ cents in fiscal 2000, vs. a loss of 39¢ cents in 1998. Jones sees the stock, trading at 18, rising to 26 in a year.

Charles Schwab



“Could you possibly
have more of an

Limited Time Offer



Get Windows 98 Upgrade*

Your secret? Having the essence of your PC at your fingertips. That's the promise of devices powered by the Microsoft® Windows® CE 2.0 operating system. The latest Handheld PCs are available now, so you can stay in touch with clients via e-mail, research late breaking opportunities online, and calculate margins via Pocket Excel, all in less time than it takes the market to move 30 points.

It's just like having the best of your PC with you all the time, with the Windows interface you know and pocket versions of the Microsoft Office applications you depend on. Hundreds of your favorite off-the-shelf programs, such as Symantec ACT!, pcANYWHERE and Microsoft Expedia™ Streets 98 are available to choose from.



Don't worry about being out of date; with Windows CE's built-in ActiveSync™ technology, you get effortless synchronization with your desktop and server information, even files, e-mail, and meeting requests. If your data needs to be secure, Windows CE includes support for industry-standard security protocols.

And before the stock ticker turns? Review wireless updates, check your puts, review your calls, or send an e-mail to your broker. And see how much Windows CE 2.0 turns downtime into uptime, anytime.

Powered by
Microsoft
Windows CE

When you purchase a Handheld PC powered by Windows CE between May 1 and June 30, 1998, you are eligible to receive a coupon worth approximately \$109 to get Windows 98 Upgrade when available.* Please see your local reseller for details. For more information about the companies that provide Handheld PCs powered by Windows CE, go to

www.microsoft.com/windowsce/hpc/

Advantage?"

VYING TO BE A SITE FOR MORE EYES

Recent deals by Disney, Netscape, and AT&T show how hot the market for Web "portals" is getting

Within the span of a week, the Internet's edges shifted. On Apr. 30, Walt Disney Co. announced it was buying the remaining two-thirds of Web publisher Starwave Corp. that it didn't already own. On May 4, Excite Inc. agreed to pony up \$70 million to Netscape Communications Corp. for premium access to its Web visitors. The same day, search engine company Lycos Inc. trumpeted a distribution deal with AT&T WorldNet, only to have Excite announce a similar agreement with AT&T two days later.

This isn't just another round of deal-making in Internet time. These maneuvers are the latest—and largest—by companies jockeying to become major ports of entry to the Web. Each of these so-called portals hopes to attract millions of consumers a day who will begin their Internet adventures there and stay at the site as they use free E-mail delivery, do Internet searches, and use other services.

It's an all-out bid for survival. As the vast Web divides into just a handful of key channels—akin to the dominant TV networks—attracting surfers is becoming crucial. As with the major TV networks, the more viewers, the more advertising money these sites can demand—manna to Web site operators desperate to transform their bets into real businesses. The time for that transformation has never seemed nearer. Portal contender Yahoo! Inc. has 30 million different users each month—just shy of the 33.3 million viewers that TV's *Seinfeld* claims. "It's a catalytic time period for companies in this space," says Mark Mooradian, an analyst with Jupiter Communications.

Indeed, that's why Netscape and other Internet companies are so eager to form alliances and bulk up their critical mass of viewers. This prospect is drawing advertisers, who sense a mass market finally taking shape. Ad revenue is expected to hit \$4.9 billion by 2000, up from \$1 billion last year, according to Jupiter. "It's a market-share war," says Keith Benjamin, an analyst at BancAmerica Robertson Stephens.

And the war is only going to get worse. The latest round of partnerships upped the ante. With Disney's purchase of Starwave, which gives it the ability to offer sports, news, and entertainment, there are now nearly a dozen major portal contenders. But experts say only four or five will survive. America Online Inc., the No. 1 online service, is considered one of the top long-term contenders. Its users make up 38% of Web traffic from home, and they typically use the AOL.com site as a launching pad. The many monthly visitors to Yahoo! give that service a lead in brand recognition that's hard to beat, analysts say. And Microsoft Corp., which has deep pockets and plans this year to create a megasite dubbed "Start," is always a good bet.

AOL COPYCATS. That leaves but a couple of open seats, a situation that is sure to trigger more partnerships. But this time around, experts say, portal wannabes will try to do deals that steal a page from the success of AOL—by linking their content and services with Internet access. Yahoo! has done just this. In January, it announced an agreement with MCI Communications Corp. in which the long-distance carrier's Internet-access customers are delivered to the doorstep of Yahoo! In early May, Lycos and Excite announced similar agreements with AT&T.

"You'll totally see more of this," says Mooradian, who cites Internet service providers Netcom, Earthlink, and Mind-

Spring as likely partners for the and-coming portal crowd.

You'll also see more snazzy services. As companies try to one-up one another, they will add goodies ranging from cheap long-distance phone calls over the Net to customized information. Microsoft, for example, recently bought



Only a handful of sites will win this popularity

efly Network, which has technology monitors Web behavior so the ser- can recommend products. Now, por- rivals are expected to improve their rings with services like personal ail alerts.

ahoo! has a carrot of its own. ough an agreement with phone car- IDT Corp., Yahoo! is offering long- ance phone calls over the Net that cost 95% less than regular calls. scape says it plans a similar fea- . "They're going to keep adding ser- after service to get ahead," says yst Ron Rappaport of Zona Re- ch Inc. "There's no one recipe for ess for any of these guys."

WITH THE MONEY? Take the Netscape- te deal, which has analysts and in- ors scratching their heads. Excite aying \$70 million to get 50% of scape's search traffic in the first year e deal. Excite is banking on an ex-

tra 8 million to 10 million daily page views, the number of pages called up on a Web site. Excite will offer 10 con- sumer content areas on Netscape's Web site, including shopping and the arts. And Excite will share revenue with Netscape from ads it sells on the search and content areas.

That's a lot of new traffic for Excite, but some analysts ques- tion whether the high- dollar deal is worth it. Under attack from Microsoft's Internet Explorer browser, Netscape's browser share has declined from a high of 85% in late 1996 to 60% to- day. Analysts expect Netscape's share to continue to dwindle, leaving Excite with a lot less than it paid for. Netscape says its browser share rose in March after its recent move to make the product free.

Some also question whether Excite will get what it wants from the advertising side of the deal. While the No. 2 search engine will be responsible for selling all the ads on the co-branded search engine and content areas, it's un- certain whether it can sell enough to recoup \$70 million. "This deal is a stretch," says Benjamin, who has pushed back his fore- cast of when the com- pany will break even, to the fourth quarter, in part because of increased costs associated with the deal.

That's not the only risk. By working with Netscape, Excite could dilute its brand and become overwhelmed by its more dominant partner. Excite is helping to build another company's portal rather than buttressing its own site, says Jeffrey Mallett, chief operating officer at rival Yahoo!, which along with Infoseek, Excite, and Lycos, has been a search service on Netscape for the past two years. Mallett says Yahoo! didn't want to grow heavily

dependent on Netscape: "We didn't want to go back to the heroin."

George Bell, Excite's chief executive officer, insists the traffic Netscape guar- anteed will easily cover his investment. Though Excite sells only 13% to 15% of its ad space, real estate on highly traf-

ficked areas like Net- scape sells at a greater premium, he says. And the Web is growing so fast that building brand awareness and traffic remains his No. 1 job. "We think that's pretty virgin ter- ritory," Bell says. "Look at the \$70 mil- lion as a downpayment on leasing a prime piece of real estate."

Surprisingly, though, Excite didn't cut an exclusive deal with Netscape, which is divvying up the re- maining 50% of its search traffic this year among other engines. The search engine business is a lucrative one for Netscape, which generated \$35 million to \$40 million in payments from the engines last year.

For Netscape, the Excite partnership is part of a belated play in the consumer mar- ket. When Netscape launched its NetCenter site last Septem- ber, it was primarily for business users, and the consumer field was left to AOL, Microsoft, and Yahoo!

Netscape soon realized it was passing up a big market and started adding fare for consumers. With the Excite deal, Netscape picks up new content, not to mention much-needed cash: The compa- ny lost \$115.5 million last year.

For now, the game is about adding me-too services. "All of us are kind of playing hopscotch," says Barak Berk- owitz, vice-president of marketing at In- foseek, a Sunnyvale (Calif.)-based search engine. But if sites hope to catch the loyalty of fickle Netsurfers, they'll need to find something to set themselves apart.

By Heather Green in New York, with Robert D. Hof in San Mateo, Calif., and Paul Judge in Boston

THE SCRAMBLE FOR PORTAL PARTNERS

NETSCAPE/EXCITE

On May 4, Excite agreed to pay Netscape an up-front fee of \$70 million in exchange for ad space on a co-branded search service, as well as on 10 channels it's creating for Netscape's Web site. Excite also will be the most promi- nently featured search service on Netscape's Web site.

LYCOS/AT&T/EXCITE

The No. 1 long-distance phone carrier will market Lycos and Excite to AT&T's phone and Internet-access customers. AT&T also will sell its ser- vices—such as cellular and long-distance service—on the Lycos and Excite Web sites.

DISNEY/STARWAVE

On Apr. 30, the media giant bought the two-thirds of Star- wave that it didn't already own. The deal for Starwave, a pioneer in Web publishing, boosts Disney's bid to meld its sports, news, and entertain- ment sites, including ESPN SportsZone, a joint venture with Starwave.



est—and the big money that is the reward

TELECOMMUNICATIONS

U S WEST SCOUTS A NEW FRONTIER

It turns to digital services after a phone-cable TV misstep

You would think U S West Inc. might be a little gun-shy about jumping ahead of its Baby Bell brethren with glitzy new technologies. After all, the Denver-based Bell bet heavily on the "convergence" of telephone and cable-TV services in 1993 when it began amassing the third-

largest collection of cable properties in the country. Last year, the company conceded the experiment wasn't working, and at the June 4 annual meeting, shareholders are expected to approve a plan to split the company in two: a telco to be called U S West Inc. and a cable company, MediaOne Group Inc.

U S West must create new markets—fast. It will be the smallest Baby Bell after its planned split from cable TV operations

**BELL CEO TRUJILLO
FACES LONG ODDS AS HE
ENTERS NEW VENTURES**

largest collection of cable properties in the country. Last year, the company conceded the experiment wasn't working, and at the June 4 annual meeting, shareholders are expected to approve a plan to split the company in two: a telco to be called U S West Inc. and a cable company, MediaOne Group Inc.

But even before the cable plan is laid to rest, the new U S West is back to its trailblazing ways. This time, the company is diving into risky new ventures in an aggressive bid to become the telephone industry's technology pacesetter. By July, it will offer superfast Internet

access in 43 Western cities with a largely untested technology called digital subscriber line—even though most other Bells have refrained from broad deployment because of high costs and a lack of industrywide standards. U S West also is building a digital wireless network—just as rising competition is

dragging down profits for others in the business. The company even plans to deliver TV service via the phone lines to Phoenix residents this fall. Never mind all the technical challenges, says Solomon D. Trujillo, chief executive of the phone company: "We're not piloting. We're deploying."

MERGER CANDIDATE. Why go back out on a limb? Trujillo has no choice but to create new markets—and fast. After the split, U S West will again be the smallest, least diversified Baby Bell in a fast-consolidating industry. Unless it finds fertile new ground, it could be

swallowed by a hungry rival like Sprint Communications Inc. or Ameritech Corp., analysts say. Trujillo should have a two-year hiatus from unwanted bids thanks to tax laws that make a merger prohibitively expensive in that time. Then, Trujillo had better have plenty of show for his digital forays. "U S West already is a likely merger candidate," says analyst Robert B. Wilkes of Broderick Brothers Harriman & Co. "If it stumbles, that would accelerate the process."

What are Trujillo's chances for success? His odds are long. U S West could lose 20% to 40% of its core local phone business in the next five years as competition from new rivals grows, executives admit. Its entry into long distance could be delayed for a year or more because of regulatory challenges from AT&T and others. And if its bold new ventures fall flat, its best customers may



leave for cable companies and others that plan to bundle phone service. "If we lose the 25% of customers that give us 75% of our profits, we have a survival issue," admits Richard D. Cormick, who is CEO of the combined U S West and will become chairman of the new phone company.

Trujillo insists this effort will be different, in part because he learned valuable lessons from U S West's cable effort. Instead of leaping headlong into technologies, he's installing gear city-by-city to work out kinks. And rather than jumping to a new network, like cable



mesh

digital

Put all your IT investments—past, present and future—to work like a single, well-oiled machine? Work with us. We've been named #1 systems integrator,* so whether it's OpenVMS, UNIX® or Windows NT®, no one's better at keeping you running in high gear. Find us at www.digital.com/mesh, or call 1-800-DIGITAL. And get ready to win in a networked world.

© Digital Equipment Corporation. The Digital logo and OpenVMS are trademarks of Digital Equipment Corporation. Other names are trademarks of their respective companies. *Computerworld, Inc. Survey, July 28, 1997.

he's focused on exploiting the phone network to offer new services. One example: Customers can now get one number for both their home and wireless phones. The goal is to persuade today's \$40-a-month phone customers to spend \$100 or more for Internet access, wireless, long distance, and TV charges—along with local phone service. "Making all this stuff together, that's our mission," says Trujillo, who hopes the new services will account for 60% to 70% of revenues in 10 years.

So far, Trujillo is getting kudos from Wall Street. U S West's shares have risen from 30 to 54 since July, largely

industry. While the company is just starting to offer high-speed Net access, Cox Communications, Tele-Communications, MediaOne Group, and others have sold 200,000 cable modems. There's a reason: Cable connections to the Net are typically 33% cheaper than U S West's service and their download speeds are four times as fast. DSL subscribers also must live within three miles of the phone company's central office. By contrast, cable modems soon will be available to almost any home with access to cable TV. Cynthia B. Brumfield, an analyst with Paul Kagan Associates, figures 3.7 million cable

nearly \$2,000 per home because U S West had to dig up user's yards for the installation. Indeed, the DSL plan assumes no major upgrades are needed to bring decades-old phone lines up to snuff. Says McCormick: "I don't think it's a big gamble because we'll never have to dig up the rose bushes."

It will be even tougher to make the company's Phoenix video service a success. What U S West wants to do is use a high-powered version of DSL to provide TV over traditional phone lines. That presents tremendous technical challenges because TV programs require 10 times as much bandwidth as U S

DIALING UP DIGITAL SERVICES



INTERNET SERVICES

U S West leads the Baby Bells

with plans to offer high-speed digital subscriber line (DSL) service to up to 5 million homes by July. The challenge: Persuading consumers to pay \$60 or more for DSL service and Internet access.

Percent of total sales today: 0%
Projected percent in 2001: 2%

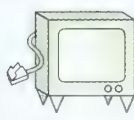


LONG DISTANCE

The company wants approval to

sell its own long-distance service, but that's apt to take longer than most Bells because of scant local competition in its territory. U S West also is in talks to bundle long distance from a data network carrier.

Percent of total sales today: 0%
Projected percent in 2001: 8%



VIDEO SERVICES

To counter an offensive into

telephony by Cox Communications, U S West plans to offer 400,000 Phoenix residents DSL-based TV service this year. That will cost a pricey \$1,000 per home and the technology is still questionable.

Percent of total sales today: 0%
Projected percent in 2001: 1%



WIRELESS COMMUNICATIONS

After selling its cellular holdings in

January, U S West is spending \$775 million on a digital wireless service. The problem? U S West is so late to market that it's typically the fifth or sixth competitor in a region—and prices are plunging.

Percent of total sales today: 0%
Projected percent in 2001: 3%

DATA: SANFORD C. BERNSTEIN & CO., BUSINESS WEEK

because management has improved a terrible customer-service record and slashed costs by more than \$1 billion. "The company is just blocking and tackling much better," says analyst Tod A. Jacobs of Sanford C. Bernstein & Co. **"TOO EXPENSIVE."** Still, U S West's plan is loaded with risk. Consider its DSL service, which went live in Denver, Boise, and Salt Lake City on May 4. DSL turbocharges traditional copper phone lines so they can carry data at speeds of up to 7,000 kilobits per second—100 times faster than today's modems. U S West is offering several different flavors of DSL. The top speed is aimed at big companies that would pay \$840 a month, while small businesses and consumers can opt for slower service that costs \$40 to \$80 a month.

Even with tiered pricing, cost could be an obstacle. DSL may be popular with businesses willing to pay top dollar in cableless downtown sites, but "DSL will be too expensive for the consumer side," says Don Hutchison of @Home Network, which offers rival high-speed Net access over cable networks.

Indeed, U S West is staring down a challenge from @Home and the cable

modems will be sold by 2000, vs. 1.4 million DSL modems.

U S West is moving aggressively in its 14-state Western territory to fend off cable players, which have focused on the Northeast. The company's 43-city DSL rollout will reach 5 million potential consumers by July. And it may lower its \$40-a-month charge for DSL bandwidth within the next few months. "I'm deliberately driving my margins as low as I can bear, because we need massive adoption," says data networking chief Joseph R. Zell.

But cost could still snag U S West's grand plan. The company will have to invest roughly \$700 per home to offer the consumer service and won't see a profit for at least four years on DSL alone, says Zell. Executives figure they can cut the payback time in half by urging customers to also use U S West as its Internet access provider and to buy software for things like protection against computer viruses.

Even then, there must be no surprise DSL costs—a rarity with new technologies. In 1994, for example, a pilot in Omaha to install new broadband cables encountered costs that ballooned to

West's residential DSL service. Many analysts simply doubt the technology can be installed at acceptable costs. They also see U S West's entry into video as a knee-jerk response to Cox Communications, which has been selling phone service in Phoenix along with cable packages since December. "A huge chunk of this is cage-rattling to try to put the fear of God into the cable operators," says analyst Brumfield.

What will make or break U S West's digital future is whether it can go beyond simple bundling of its phone, Internet, and DSL services into more innovative offerings. Trujillo envisions a "unified messaging" platform that lets consumers hear their E-mail on portable phones or see the text of voice messages on the TV screen. While U S West's single number for wireless and wireline phones is a good start, Trujillo knows that he needs more ways to distinguish his products. "Sol's impatient for more integration," says Vicki Callen, head of the unit rolling out TV over phone lines. That's half the stance of the gun-shy—but then, Trujillo has no time to hesitate.

By Peter Burrows in San Francisco, Calif., with Ron Grover in Los Angeles

Find these Business Week advertisers on the Web:

Compuware Corporation
www.compuware.com
Continental Airlines
www.flycontinental.com
Dale Carnegie Training
www.dale-carnegie.com
Dana Commercial Credit
www.dana.com/dcc
Delta Air Lines
www.delta-air.com
Digital PC
www.windows.digital.com
Diners Club International
www.dinersclub.com
J.D. Edwards & Company
www.jdedwards.com
EMC
www.emc.com
Ericsson
www.ericsson.se
E*TRADE
www.etrade.com
Equitable/AXA
www.equitable.com
Federal Express
www.fedex.com
Fidelity Investments
www.fidelity.com
FileNET
www.filenet.com
FlexiInternational Software
www.flexi.com
Ford
www.ford.com/
France Telecom
www.francetelecom.fr
Fujitsu
www.fujitsu.com
Fujitsu PC Corporation
www.fujitsu-pc.com
Gateway 2000
www.gateway.com

GE Information Services
www.geis.com
General Motors
www.gm.com
GTE
www.gte.com
Hammermill
www.hammermillpaper.com
Hewlett-Packard
www.hp.com
Hitachi
www.hitachi.com
Honda
www.honda.com
Hyatt Hotels Corporation
www.hyatt.com
Hyperion Software
www.hysoft.com
IBM
www.ibm.com
International Paper
www.ipaper.com
Iomega
www.iomega.com
JBA International
www.jbaintl.com
Lawson Software
www.Lawson.com
Lexus
www.lexus.com
Lincoln-Mercury
www.lincolnm Mercury.com
Lotus
www.lotus.com
Lucent Technologies
www.lucent.com
MCI
www.mci.com
Mercedes-Benz
www.usa.mercedes-benz.com
Merrill Lynch
www.ml.com/
Microsoft
www.microsoft.com/
Mississippi Power
www.msppower.com/ecodev
MITA
www.mita.com
**Mitsubishi Electronics
America, Inc./Electronic
Device Group**
www.mitsubishielectronics.com

Mitsubishi Motor Sales of America
www.mitsucars.com

NCR
www.ncr.com

Norfolk Southern
www.nscorp.com

Nortel
www.nortel.com

Northwest Airlines
www.nwa.com

Novartis
www.novartis.com

Okidata
www.okidata.com

OPEL
www.opel.com

The Panasonic Personal Computer Company
www.panasonic.com/ruggedpc

PeopleSoft
www.peoplesoft.com

Praxair
www.praxair.com

PSINet
www.psi.net/

QAD Inc.
www.QAD.com

QUALCOMM
www.qualcomm.com/cdma

Republic National Bank
www.rnb.com

Ricoh Corporation
www.ricoh.com

Roberts Express, Inc.
www.roberts.com

Royal Insurance
www.royal-usa.com

SAP
www.sap.com

SAS Institute
www.sas.com/

Savin
www.sales@savin.com

Charles Schwab
www.schwab.com
Seagate
www.seagate.com
Sharp
www.sharp-usa.com/
Siemens Corporation
www.siemens.com
Siemens Microelectronics
www.smi.siemens.com
Sprint
www.sprint.com
Sun Microsystems
www.sun.com
Symbios Logic
www.symbios.com/bw.htm
TIBCO
www.tibco.com
Tivoli
www.tivoli.com
Toshiba America
Information Systems
computers.toshiba.com
Toyota in America
www.toyota.com/usa
Toyota Motors
www.toyota.com
T. Rowe Price
www.troweprice.com
United Technologies
www.utc.com
UPS
www.ups.com
US Airways
www.usairways.com
UUNET Technologies
www.uu.net
Visio
www.visio.comp
Vizio
www.vizio.com
Xerox
www.xerox.com

www.businessweek.com

@ Internet speed



800-353-9492 <http://www.flexi.com>



PROFITS: TORRID TURNS TEPID IN THE FIRST QUARTER

There was no way sizzling profit performance could go on forever. And it didn't

Not long ago, Corporate America was racking up stellar earnings numbers the way Michael Jordan pumps in points—showing few signs of wear, despite having been at it forever. Today? Well, at least Jordan is still going strong. But take out the one-time \$16 billion gain Ford Motor Co.

booked from the spin-off of its Associates First Capital Corp. finance arm, and net income rose only 4% in 1998's first quarter for the 900 companies on BUSINESS WEEK's Corporate Scoreboard. Sales rose a relatively tepid 7%. Back in 1997's first quarter, net income grew a sizzling 21%—about what you would get for the

'98 first quarter if you included Ford's dazzling special gain.

Nor do things look much better on a operating basis. Remove special charges from the 900 companies and the overall gain in profits remained a sluggish 5%. Says Hugh A. Johnson, chief investment officer for First Albany Corp.: "The call

The Winners and the Losers

INDUSTRIES

LEADERS		LAGGARDS	
PERCENTAGE CHANGE FROM 1997'S FIRST QUARTER		PERCENTAGE CHANGE FROM 1997'S FIRST QUARTER	
PAPER CONTAINERS	526%	MACHINE & HAND TOOLS	LOSS
CARS & TRUCKS	368	FOREST PRODUCTS	LOSS
FOOD PROCESSING	194	APPAREL	-58%
MISCELLANEOUS LEISURE	143	SEMICONDUCTORS	-42
AUTO PARTS	61	AEROSPACE	-35
CONSTRUCTION/REAL ESTATE	56	NONFERROUS METALS	-32
ALUMINUM	40	COAL, OIL & GAS	-32
PETROLEUM SERVICES	39	RAILROADS	-19
CONSTRUCTION/ENGINEERING	35	GAS UTILITIES	-18
PAPER	35	TELECOMMUNICATIONS	-18
SAVINGS & LOAN	33	ELECTRICAL PRODUCTS	-10
APPLIANCES	30	ELECTRONICS	-10
DRUG DISTRIBUTION	30	HEALTH-CARE SERVICES	-7
TIRE & RUBBER	28	BEVERAGES	-5
SPECIAL MACHINERY	28	CHEMICALS	-4

ALL-INDUSTRY AVERAGE: +22%

COMPANIES

WHO MADE THE MOST		WHO LOST THE MOST	
MILLIONS OF DOLLARS		MILLIONS OF DOLLARS	
FORD MOTOR	\$17,646	BLACK & DECKER	-\$971
GENERAL ELECTRIC	1,891	NEXTEL COMMUNICATIONS	-387
EXXON	1,890	WORLDCOM	-280
PHILIP MORRIS	1,874	CABLETRON SYSTEMS**	-263
GENERAL MOTORS	1,604	SILICON GRAPHICS*	-153
MICROSOFT*	1,337	BAY NETWORKS*	-144
AT&T	1,316	U S WEST MEDIA GROUP	-135
WAL-MART**	1,287	SEAGATE TECHNOLOGY*	-129
INTEL	1,273	ALLERGAN	-122
MERCK	1,164	STONE CONTAINER	-69
NATIONSBANK	1,139	ADVANCED MICRO DEVICES	-63
TRAVELERS GROUP	1,093	TIME WARNER	-62
CITICORP	1,065	UNION PACIFIC	-62
CHRYSLER	1,052	COCA-COLA ENTERPRISES	-51
IBM	1,036	BAUSCH & LOMB	-49

* FISCAL THIRD QUARTER ** FISCAL FOURTH QUARTER

DATA: STANDARD & POOR'S COMPUSTAT, A DIVISION OF THE MCGRAW-HILL COMPANIES



absolutely stacked against strong ts."

ne blah earnings performance is cu-, given the overall economy's health. s domestic product clicked along in first quarter at an annual rate of , vs. 3.7% in 1997's final period. In- n is well-behaved, below 1%. Mean- e, the public is happily dipping into allet, with consumer spending rising bust 5.7% for 1998's first three hs. Capital spending, too, has sky- eted by 17.6%. Low interest rates a mild winter also yielded a vibrant ng market, with starts up 9%.

t these sunny conditions mask un- ing weaknesses, which have hurt ability in many areas. The strong : has hobbled exports and attracted etition from a surge of often-cheap- orts. Asia's economic turmoil has up a rich market. Tight labor mar- have helped push up wages, even as oyee benefits are growing more ex- ve (page 170). Add to that the ican public's deep desire for bar- , making price hikes tough for many anies. Indeed, some are slashing s. Witness the race to sell sub-\$1,000 uters.

ose factors are starting to push ins down a notch. As a whole, the board companies recorded net mar- of 6.4% in the quarter, not including s extraordinary gain. Still, if margins slipped from 6.6% in the year-ago l, this was still one of the best first- er margins in 25 years.

rtainly, not everyone met disap- ment. Not counting Ford, the st winner for the quarter was Gen- electric, which reaped the rewards ooming economy across its product rom plastics to jet engines to its etwork—and registered a \$1.9 bil- rofit. The food industry turned in h-watering 194% gains, mostly s to the turnaround at Quaker Oats fter losing \$1.1 billion in 1997's first

quarter, the sale of its money-losing Snapple operation allowed Quaker to book a modest \$47 million profit this year. The strong economy also boosted demand for cardboard and paper containers, allowing several companies to trim losses. That made the industry by far the quarter's most improved, with profits up a stunning 526%. Other winning sectors include construction and real estate, which rode low mortgage rates to a 56% earnings hike. With the economy and Wall Street thriving, financial outfits are also doing well. Among the leaders was Travelers Group Inc., parent of the Salomon Smith Barney securities firm, which posted a 34% increase.

Successful new products powered prof- its at many drug and medical-product

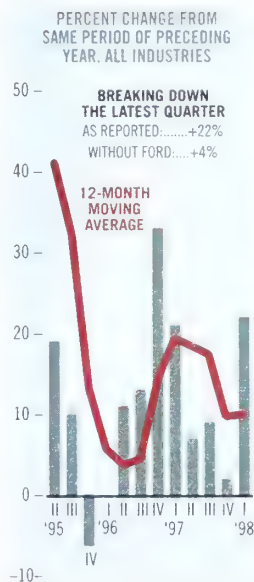
companies. Those industries saw net income jump 18% and 26%, respectively. Warner-Lambert Co. got a lot of mileage out of its cholesterol-lowering drug, Lipitor, sending profits up 37%.

Elsewhere, though, the picture wasn't as pleasant. Black & Decker Corp. took the quarter's biggest hit, racking up losses of \$971 million. The main culprit: a \$900 million write-off for selling underperforming units.

Or consider Intel Corp., which supplies nearly 9 out of 10 PCs with their microprocessor chips. Earnings fell a breathtaking 36%, to \$1.3 billion. The popularity of low-priced computers means Intel is selling more low-end, less-profitable chips—and fewer high-end ones. But Intel also is the victim of the PC-makers' move

A Spotlight On First-Quarter Profits

AFTERTAX PROFITS QUARTER BY QUARTER



INDUSTRIES WITH THE BIGGEST DOLLAR CHANGE IN THE QUARTER

As the punchline goes, are you going to believe me or your own eyes? While earnings were up a boffo 22%, take out Ford and the gain dwindles to a meager 4% on a 7% sales hike, the smallest revenue increase since the first quarter of 1994. Similarly, remove Ford and the car-and-truck industry wouldn't appear among the sectors with the biggest dollar swing. The food-processing industry also is on that list, thanks to Quaker Oats, which recovered from last year's \$1.1 billion Snapple-related loss. On the negative side, Intel's 36% profit drop left the semiconductor industry a loser, while declining crude prices made this a quarter to forget for Texaco, Exxon, and the rest of the oil companies.

CHANGE IN AFTERTAX PROFITS FROM 1997

CARS & TRUCKS



DATA: STANDARD & POOR'S COMPUSTAT, A DIVISION OF THE MCGRAW-HILL COMPANIES

late last year to build inventory to meet a demand that hasn't lived up to expectations. The industry, laments Intel Chairman Andrew S. Grove, "seems to have gotten ahead of itself."

Read Grove's lips and he's clearly referring to Compaq Computer Corp., the world's largest PC maker. On top of lower prices for new machines, Compaq got hurt because the massive inventory buildup forced it to discount heavily while boosting ad spending. The result: Profits slumped 96%, to a piddling \$16 million. The industry's only really good news came from long-suffering Apple Computer Inc. The launch of a well-received new line of Macintoshes helped propel it to a second straight profitable quarter, with \$55 million in earnings.

Oil is another industry with pricing problems. A glut of crude caused by Asia's economic woes and a warm winter knocked prices down by a third compared to a year ago. Exxon Corp. experienced a 13% profit dip, to \$1.9 billion, despite benefiting from strong chemicals and gasoline retailing sectors.



A tight labor market and a strong dollar are depressing margins

Demand was strong in aerospace, but the group was dragged down by its woe-begone leader, Boeing Co. The company's production lines are snarled by a backlog of airplane orders. Bottlenecks in connection with its next-generation 737 plane alone resulted in a \$219 million

charge. Boeing's earnings glided downward 91%, to \$50 million.

Things were looking much better among Boeing's airline customers, who are planning to expand as they cruise along on a comfortable cushion of rising airfares and low fuel costs. AMR Corp., parent of American Airlines Inc., turned in a spectacular 91% profit increase to \$290 million.

That other big transportation sector, autos, was a mixed bag. Ford, powered by a relentless cost-cutting campaign and a strong showing in Europe, rang up a record \$1.7 billion in income before special charges, a 15% gain. The gains came despite a 2% revenue drop caused by intense competition in North American sales. But at General Motors Corp., income fell 11%, to \$1.6 billion, partly because it sold fewer parts to Asia. GM and much of the rest of Corporate America, management will have to find new gear if it hopes to keep profits from stalling out.

By Larry Light in New York, in bureau reports

HERE COME HEFTY HIKE IN BENEFITS

Benefits have always been the smaller segment of compensation costs. After all, wages constitute 72.5% of all labor bills, and their direct value to workers makes pay raises more visible than Social Security payments or sick leave. This year, however, the tail may wag the dog.

In the early 1990s, companies offset pay raises by holding down benefit increases. That's still going on, but the gap is closing. In the first quarter of 1998, for example, wages and salaries increased 4%, while benefits rose 2.3%. For the whole year, economists at Standard & Poor's DRI expect wage gains to stay at about 4%, while the growth in benefits accelerates by a full percentage point, to 3.3%. Since labor costs account for about two-thirds of total business expenses, the resulting 3.6% increase in compensation will crimp profit margins. Rising labor costs are a key reason why DRI forecasts aftertax profits will grow just 3.3% for this year.

What's behind the jump in benefits? First of all, the costs of many benefits, such as paid vacations and holidays and pension liabilities, follow in lockstep with any pay increases. Second, past savings in health-care

outlays were achieved mostly by shifting employees into health-maintenance organizations. But by 1997, 85% of employees were enrolled in such plans, according to the latest Mercer/Foster Higgins study. That's a big leap from 77% in 1996, suggesting that the era of medical-cost savings is ending.

Indeed, the Labor Dept. said that health-care insurance premiums increased 2.2% from the fourth quarter to the first, compared with almost no gain a year earlier. The Mercer survey found that businesses are bracing for a 7% increase in their medical costs for all of 1998. With some HMOs running into financial troubles, a few are hinting at double-digit increases for 1999.

Still, not all benefits are heading north. Companies are getting some relief from an unlikely source: state governments. In the first quarter, the drop in payments for workers' compensation and unemployment insur-

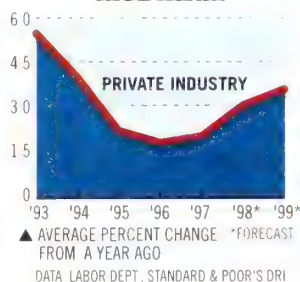
ance funds largely offset increases in the costs of other benefits. The trend began in the mid-1990s, when some states, mainly in the South, cut their business-tax rates as a way to attract industry. Now, even tax-heavy states are getting into the act. In February, Massachusetts cut its workers' compensation premiums by 21.1%, in a move that could save businesses a rollicking \$200 million this year.

A cost reduction is always welcome. But this year, a government discount could just turn out to be a gift from the gods. Businesses in 1998 will surely face heated competition for skilled workers. And

that means higher compensation costs. Companies might find themselves growling about the extra expense, but with the tightest labor markets in over a generation, executives may have little choice but to fork it over.

By Kathleen Madigan in New York

BENEFIT COSTS RISE AGAIN



CORPORATE SCOREBOARD

COMPANY	SALES		PROFITS		MARGINS		RETURN		5-YEAR GROWTH			MARKET VALUE SHARES OUTSTANDING 4-24 \$ MIL.	12 MONTH EARNIN PER SHAR
	1ST QUARTER 1998 \$ MIL.	CHANGE FROM 1997 %	1ST QUARTER 1998 \$ MIL.	CHANGE FROM 1997 %	1ST QUARTER 1998 %	1ST QUARTER 1997 %	ON INVESTED CAPITAL %	ON COMMON EQUITY %	P-E 4-24	COMMON EQUITY %	EARNINGS PER SHARE %		
3 BANKS													
INDUSTRY COMPOSITE	85642.6	12	11007.6	6	12.9	13.6	14.9	16.4	21	17	13	813543	3.44
(A) BANKS - EAST GROUP COMPOSITE	38366.5	13	4159.5	-2	10.8	12.6	17.2	17.7	20	16	13	306621	4.51
BANK OF NEW YORK	1286.0	1	284.0	7	22.1	20.9	18.6	22.3	21	10	21	22165	2.8
BANKBOSTON	1926.4**	20	238.3	15	12.4	12.9	NA	20.4	18	20	22	16001	5.9
BANKERS TRUST	3280.0	19	222.0	11	6.8	7.3	16.5	17.2	16	6	-9	12556	7.9
CHASE MANHATTAN	8258.0**	14	725.0	-22	8.8	12.8	NA	16.7	18	23	11	56436	7.7
CITICORP	9069.0**	10	1065.0	7	11.7	12.1	15.0	18.3	21	20	36	70446	7.5
FIRST MARYLAND BANCORP	449.7**	83	95.7	181	21.3	13.9	12.0	NA	NA	18	NA	NA	NA
FLEET FINANCIAL GROUP	2289.0	9	323.0	-3	14.1	15.9	NA	17.1	19	27	15	23502	4.6
MBNA	1165.2	11	149.4	21	12.8	11.8	11.3	32.3	28	26	29	16759	1.2
MELLON BANK	1392.0	16	215.0	13	15.4	15.9	NA	21.3	25	10	10	19034	2.9
MORGAN (J.P.)	4923.0**	15	237.0	-44	4.8	9.9	23.1	11.6	22	9	1	23913	6.2
PNC BANK	1830.4	9	269.3	1	14.7	15.9	NA	19.3	18	9	2	18214	3.3
REPUBLIC NEW YORK	930.6	7	117.5	7	12.6	12.6	11.5	14.6	17	11	11	7402	8.0
STATE STREET	960.0**	24	106.0	23	11.0	11.1	28.3	20.0	29	17	17	11419	2.4
SUMMIT BANCORP.	607.2**	6	112.4	13	18.5	17.4	NA	16.0	22	25	23	8774	2.2
(B) BANKS - MIDWEST GROUP COMPOSITE	18787.1	11	2717.8	8	14.5	14.9	13.8	17.0	24	17	13	223879	2.4
BANC ONE	3438.1	10	517.6	36	15.1	12.2	13.0	14.0	26	13	3	37544	2.2
COMERICA	808.7**	7	144.4	17	17.9	16.4	18.7	21.3	30	4	17	10526	2.2
FIFTH THIRD BANCORP	519.4**	13	109.0	15	21.0	20.5	20.1	18.3	31	19	16	12573	1.7
FIRST CHICAGO NBD	2603.0**	8	383.0	1	14.7	15.7	14.4	19.3	18	28	17	26350	5.0
FIRSTAR	478.4	6	72.9	2	15.2	15.9	16.4	17.5	19	11	7	5558	2.0
HUNTINGTON BANCSHARES	599.2**	8	89.5	16	14.9	14.0	NA	15.6	23	13	7	6926	1.5
KEYCORP	1683.0	11	235.0	11	14.0	14.0	13.3	18.2	19	NA	NA	17605	2.1
MARSHALL & ILSLEY	511.2	29	72.9	33	14.3	13.9	13.2	13.3	24	20	9	6054	2.5
MERCANTILE BANCORPORATION	657.5	35	103.9	39	15.8	15.4	9.3	9.7	31	28	-2	7268	1.7
NATIONAL CITY	1869.4	8	103.7	-62	5.5	15.9	12.8	16.7	23	15	12	15397	3.1
NORTHERN TRUST	622.3	20	84.9	18	13.6	13.9	23.9	19.6	26	14	15	7977	2.7
NORWEST	2564.8**	12	367.0	14	14.3	14.0	NA	20.2	22	21	18	29681	1.8
OLD KENT FINANCIAL	346.2**	13	46.2	13	13.3	13.4	20.4	18.1	20	7	8	3723	1.9
STAR BANC	302.3	27	59.3	31	19.6	19.1	13.7	14.8	26	9	20	5836	2.3
U.S. BANCORP	1783.6**	-	328.5	12	18.4	17.7	10.8	16.7	36	24	28	30861	3.4
(C) BANKS - SOUTH & SOUTHEAST GROUP COMPOSITE	18475.5	14	2791.8	21	15.1	14.3	13.9	15.7	20	20	11	181067	3.2
AMSOUTH BANCORPORATION	431.3	8	62.0	14	14.4	13.6	8.7	16.4	21	11	8	4633	2.8
BB&T	713.3**	14	113.7	14	15.9	16.0	NA	17.5	24	48	5	8843	2.6
COMPASS BANCSHARES	305.5	9	42.9	12	14.1	13.7	NA	NA	20	15	11	3242	2.4
CRESTAR FINANCIAL	534.0**	8	84.9	18	15.9	14.6	15.5	15.2	21	18	14	6716	2.8
FIRST AMERICAN	267.1**	10	37.6	11	14.1	14.0	NA	16.4	21	15	17	2979	2.4
FIRST TENNESSEE NATIONAL	447.0**	24	46.4	20	10.4	10.7	24.3	21.5	22	11	12	4343	1.3
FIRST UNION	3904.0	13	587.0	16	15.0	14.6	17.6	16.7	20	27	8	39497	3.7
NATIONSBANK	7045.0	15	1139.0	33	16.2	14.0	NA	16.4	17	19	14	54482	4.4
POPULAR	454.3**	17	54.8	11	12.1	12.8	NA	14.7	23	13	17	4669	3.0
REGIONS FINANCIAL	563.1	17	86.2	16	15.3	15.4	17.2	16.5	20	23	10	6151	2.7
SOUTHRUST	685.6	20	86.5	22	12.6	12.4	10.2	14.7	20	20	13	6521	2.0
SUNTRUST BANKS	1245.8**	14	180.9	12	14.5	14.8	13.1	13.2	24	13	14	16570	3.7
UNION PLANTERS	444.9	2	74.6	12	16.8	15.3	10.2	13.0	24	45	2	5006	2.7
WACHOVIA	1434.7	15	195.3	1	13.6	15.5	10.9	12.1	29	12	6	17414	2.7
(D) BANKS - WEST & SOUTHWEST GROUP COMPOSITE	10013.6	8	1338.4	3	13.4	14.0	10.4	13.7	21	17	17	101976	4.1
BANKAMERICA	6216.0**	11	835.0	7	13.4	13.9	NA	16.6	19	9	16	57774	4.0
FIRST SECURITY	425.0	25	58.8	23	13.8	14.2	NA	16.5	20	14	12	4229	1.3
PACIFIC CENTURY FINANCIAL	325.9**	12	34.0	-4	10.4	12.2	16.3	12.4	14	6	4	1952	1.1
UNIONBANCAL	636.7**	6	95.6	3	15.0	15.4	18.1	15.4	16	23	24	5972	7.7
WELLS FARGO	2410.0	0	315.0	-7	13.1	14.0	8.4	8.8	29	36	19	32049	1.2
4 CHEMICALS													
INDUSTRY COMPOSITE	33770.4	-2	2797.6	-4	8.3	8.5	12.6	18.5	26	3	29	229199	2.1
AIR PRODUCTS & CHEMICALS (3)	1208.6	5	120.5	14	10.0	9.2	11.3	19.4	20	5	15	10481	4.0
ARCO CHEMICAL	934.0	-9	92.0	92	9.9	4.7	6.6	8.6	34	4	-2	5193	1.0
BETZDEARBORN	299.3	-2	15.5	-17	5.2	6.1	10.3	18.7	20	9	2	1546	2.1
CABOT (3)	457.0	6	37.5	28	8.2	6.8	11.8	14.8	26	11	27	2492	1.8
CROMPTON & KNOWLES	477.2	1	31.9	20	6.7	5.6	18.2	500.6	23	NA	6	2208	1.1
CYTEC INDUSTRIES	368.2	20	31.2	16	8.5	8.8	15.4	28.4	22	89	31	2537	2.1
DOW CHEMICAL	4829.0**	3	422.0	-7	8.7	9.1	16.5	23.2	13	-1	52	22082	7.1
DUPONT	10965.0***	-2	906.0	-11	8.3	9.1	13.6	20.7	38	-2	41	84149	1.1
EASTMAN CHEMICAL	1148.0**	2	74.0	3	6.4	6.1	9.6	15.7	19	-3	-6	5448	3.1
FERRO	339.8	1	17.1	12	5.0	4.4	NM	-18.1	NM	-5	NA	1065	-1.0
FULLER (H. B.) (1)	310.7	2	6.0	2	1.9	1.9	8.8	11.9	22	7	8	866	2.1
GEON	324.5	8	5.8	152	1.8	0.8	8.6	11.6	22	-5	16	553	1.0

CORPORATE SCOREBOARD

COMPANY	SALES		PROFITS		MARGINS		RETURN		5-YEAR GROWTH			MARKET VALUE SHARES OUTSTANDING \$ MIL	12 MONTHS' EARNINGS PER SHARE
	1ST QUARTER 1998	CHANGE FROM 1997	1ST QUARTER 1998	CHANGE FROM 1997	1ST QUARTER 1998	1ST QUARTER 1997	ON INVESTED CAPITAL	ON COMMON EQUITY	P-E 4-24	COMMON EQUITY	EARNINGS PER SHARE		
	\$ MIL.	%	\$ MIL.	%	1998	1997	%	%		%	%		
AT LAKES CHEMICAL	334.8	5	17.3	-34	5.2	8.2	4.3	4.8	48	5	-13	2988	1.05
INA (M.A.)	591.5	12	15.4	1	2.6	2.9	9.1	11.9	17	8	21	1186	1.41
CULES	430.0	-13	68.0	-37	15.8	21.8	24.9	41.2	17	-16	22	4593	2.85
GLOBAL	676.8	2	48.0	23	7.1	5.9	6.8	4.9	38	29	-12	4103	0.94
INTERNATIONAL FLAVORS & FRAGRANCES	373.4	-2	62.6	1	16.8	16.5	21.3	21.8	25	2	4	5334	1.99
RIZOL	400.4	3	29.7	-24	7.4	10.0	14.5	17.9	15	1	13	2158	2.52
ENNUIUM CHEMICALS	399.0*	-50	50.0	150	12.5	2.5	10.1	14.3	12	NA	NA	2734	2.86
SANTO	2044.0	9	196.0	-5	9.6	11.0	5.8	5.3	NM	8	-14	32332	0.35
TON INTERNATIONAL (6)	669.5**	4	60.5	-6	9.0	10.0	13.1	14.4	19	9	16	4170	1.67
CO CHEMICAL	367.1	10	38.0	6	10.4	10.7	17.2	24.9	19	2	4	2621	2.13
KAIR	1201.0	4	102.0	0	8.5	8.8	11.1	19.6	20	35	29	7908	2.53
M & HAAS	937.0**	-5	109.0	5	11.6	10.5	17.8	24.4	17	6	27	6597	6.53
TS (3)	430.6	24	33.5	20	7.8	8.1	6.5	17.6	24	6	8	698	1.53
ITIA	720.0	0	64.0	-2	8.9	9.0	44.8	NM	19	NA	NA	3375	1.52
IA INDUSTRIES	465.7**	7	-18.3	NM	NM	0.9	14.0	23.8	4	31	80	801	2.51
N CARBIDE	1561.0	-5	142.0	-10	9.1	9.6	17.9	27.9	11	14	52	6753	4.51
JO	507.4	-11	20.4	3	4.0	3.5	9.5	14.1	25	0	16	2228	1.55

CONGLOMERATES

JSTRY COMPOSITE	43110.0	11	2951.4	20	6.8	6.3	9.7	21.2	31	8	17	353538	2.14
SHENY TELEDYNE	1002.2	5	26.9	-58	2.7	6.6	20.5	20.7	17	25	31	4500	1.48
DSIGNAL	3646.0	10	300.0	16	8.2	7.8	21.1	27.6	21	16	17	24707	2.09
TER INTERNATIONAL	748.5	14	16.4	48	2.2	1.7	7.1	10.1	20	8	35	999	1.07
	355.9	3	34.5	260	9.7	2.8	13.9	16.9	25	-8	-13	1377	1.21
RAL ELECTRIC	22626.0**	12	1891.0	13	8.4	8.3	9.9	24.4	33	8	16	273818	2.53
COURT GENERAL (2)	900.6**	17	-14.4	NM	NM	1.9	NM	-17.8	NM	-2	NA	3685	-2.05
OFFICE SOLUTIONS (3)	1438.6	13	39.3	169	2.7	1.1	5.8	9.7	27	13	-1	3187	0.89
INDUSTRIES	2143.5	-1	55.6	26	2.6	2.0	14.9	15.2	36	NA	NA	4338	1.03
N	384.9	-7	11.7	9	3.0	2.6	5.6	13.5	20	3	-6	1515	1.51
VAY	356.6	18	-8.0	NM	NM	4.1	6.6	7.2	45	6	37	1553	1.65
ARK INTERNATIONAL	616.4	13	23.9	15	3.9	3.8	11.2	11.8	21	4	39	2109	1.64
ECO	1856.0	14	75.0	-1	4.0	4.7	8.6	14.2	22	10	-13	7772	2.11
RON	2718.0**	7	142.0	14	5.2	4.9	8.2	17.9	23	NA	12	12622	3.41
	3094.6	16	129.4	9	4.2	4.5	-1.0	-2.5	NM	6	NA	5761	-0.29
	267.4	1	204.7	NM	76.6	NM	19.6	66.2	4	10	-17	1116	2.19
	602.8	6	15.4	46	2.6	1.8	15.0	19.2	23	4	12	2437	1.07
MAN	352.0	6	8.1	40	2.3	1.7	4.6	3.4	NM	4	-19	2041	0.18

CONSUMER PRODUCTS

STRY COMPOSITE	72048.8	6	5926.3	-1	8.2	8.8	16.6	27.6	31	6	13	711835	1.89
PPAREL													
IP COMPOSITE	6543.4	-1	178.8	-58	2.7	6.5	15.3	17.0	22	7	11	28637	2.00
N GROUP (11)	362.7**	1	-12.6	NM	NM	0.4	NM	-10.5	NM	-6	NA	277	-1.19
APPAREL GROUP	383.8	19	38.6	31	10.1	9.2	28.6	30.0	24	26	22	2963	2.45
OOD (8)	373.7	18	2.4	19	0.6	0.6	11.5	11.2	NM	6	1	653	1.91
AIBORNE	656.0	10	45.9	9	7.0	7.1	19.3	20.4	17	-1	5	3173	2.75
7)	2224.0	-8	73.1	-69	3.3	9.8	19.2	18.5	22	17	20	13541	2.10
PS-VAN HEUSEN (11)	337.0	-12	-43.3	NM	NM	2.1	NM	-30.2	NM	2	NA	316	-2.46
IK INTERNATIONAL	880.1	-5	-3.4	NM	NM	4.3	13.7	18.1	19	-13	7	1667	1.56
	1326.2	5	78.1	11	5.9	5.6	16.1	18.9	18	9	5	6046	2.79
PLIANCES & HOME FURNISHINGS													
P COMPOSITE	14110.0	17	500.1	30	3.5	3.2	8.6	12.5	35	8	19	41158	1.38
TRONG WORLD INDUSTRIES	543.1	5	46.5	2	8.6	8.8	15.6	22.9	19	9	25	3415	4.55
ATH & BEYOND (10)	305.1	24	24.8	36	8.1	7.5	24.8	24.8	51	45	35	3646	1.03
BUY (10)	2852.1	22	64.0	651	2.2	0.4	11.5	16.9	33	25	-9	3019	2.07
IT CITY GROUP (10)	2586.0	13	57.4	-16	2.2	3.0	6.1	6.8	36	NA	0	4042	1.13
AN INTERNATIONAL INDUSTRIES (6)	391.9	9	15.1	46	3.8	2.9	8.7	11.7	13	39	50	735	3.04
-MEYERS (10)	634.7**	33	-29.1	NM	NM	2.2	NM	-9.1	NM	19	NA	799	-0.98
LL INTERNATIONAL (6)	265.0	9	13.7	-6	5.2	6.0	12.8	12.8	17	6	10	976	1.37
OY (8)	280.5	15	11.5	17	4.1	4.0	11.3	12.3	NM	8	12	955	2.55
IT & PLATT	793.2	18	57.9	20	7.3	7.2	14.1	18.6	24	22	20	5072	2.23
G	1040.4	31	72.3	88	6.9	4.9	20.1	37.7	23	0	31	4823	2.23
IMPORTS (10)	325.3**	14	26.6	49	8.2	6.3	16.5	19.9	24	15	35	1774	1.07
	1258.3	-3	37.1	45	2.9	2.0	17.2	19.3	29	-7	9	5135	1.76
POOL	2464.0	24	68.0	58	2.8	2.2	NM	-1.1	NM	3	NA	5334	-0.29
MS-SONOMA (11)	370.4	13	34.3	34	9.3	7.8	15.3	21.4	37	17	56	1434	1.50

AVERAGES													
P COMPOSITE	15390.4	10	1513.6	-5	9.8	11.3	17.8	33.6	41	5	12	291224	1.42
SER-BUSCH	2507.5	2	265.2	3	10.6	10.5	14.1	29.4	19	-2	11	22555	2.39
I-FORMAN (8)	418.2	6	45.6	10	10.9	10.6	19.3	23.1	NM	-2	7	3907	2.62
DAIGUA BRANDS (10)	282.6	8	10.0	70	3.6	2.3	NA	12.6	20	50	18	989	2.62
OLA	4457.0	8	857.0	-13	19.2	23.9	48.7	54.7	46	12	19	181900	1.59
OLA ENTERPRISES	2958.0	38	-51.0	NM	NM	NM	5.4	9.1	98	7	37	15100	0.40
(ADOLPH)	414.1	4	9.8	22	2.4	2.0	9.7	11.4	15	2	12	1249	2.21
D	4353.0	3	377.0	19	8.7	7.5	14.2	23.8	44	4	0	65525	0.99

CORPORATE SCOREBOARD

COMPANY	SALES		PROFITS		MARGINS		RETURN		5-YEAR GROWTH			MARKET VALUE SHARES OUTSTANDING 4-24 \$ MIL.	12-MONTH EARN. PER SHA.
	1ST QUARTER 1998 \$ MIL.	CHANGE FROM 1997 %	1ST QUARTER 1998 \$ MIL.	CHANGE FROM 1997 %	1ST QUARTER 1998 %	1ST QUARTER 1997 %	ON INVESTED CAPITAL %	ON COMMON EQUITY %	P-E 4-24	COMMON EQUITY %	EARNINGS PER SHARE %		
(D) PERSONAL CARE													
GROUP COMPOSITE	17561.8	3	1568.8	7	8.9	8.6	21.8	31.7	37	10	21	243785	2.2
ALBERTO-CULVER (3)	445.4	4	19.6	10	4.3	4.0	12.6	15.0	22	12	17	1655	1.3
AVON PRODUCTS	1183.4	9	-31.0	NM	NM	3.8	63.5	93.5	41	-3	15	10809	1.1
CLOROX (6)	680.5**	5	75.9	16	11.1	10.1	17.0	27.5	31	4	16	8434	2.1
COLGATE-PALMOLIVE	2159.5	1	196.0	16	9.1	7.9	18.3	34.6	37	-2	6	25922	2.3
DIAL	335.0	6	22.9	25	6.8	5.8	NA	26.1	27	NA	NA	2546	0.5
ECOLAB	436.4	17	30.6	17	7.0	7.0	18.4	25.1	30	10	15	4011	1.1
ESTEE LAUDER (6)	871.5	10	45.7	19	5.2	4.8	25.4	30.6	41	NA	NA	8377	1.7
GILLETTE	2025.0	1	268.0	14	13.2	11.8	20.5	29.5	45	31	18	64594	2.5
PROCTER & GAMBLE (6)	8881.0	1	961.0	9	10.8	10.0	23.2	30.3	34	9	40	114724	2.8
REVLON	534.3	8	-19.9	NM	NM	NM	18.7	NM	42	NA	NA	2713	1.2
(E) TOBACCO													
GROUP COMPOSITE	18443.2	1	2165.0	4	11.7	11.5	15.0	28.4	15	4	11	107029	2.4
PHILIP MORRIS	14156.0	0	1874.0	6	13.2	12.6	22.2	40.7	14	5	12	92472	2.6
RJR NABISCO HOLDINGS	3947.0	4	179.0	-16	4.5	5.6	3.7	3.6	29	3	-15	9187	0.9
UST	340.2	2	112.0	11	32.9	30.2	84.3	102.7	12	-7	12	5371	2.4
7 CONTAINERS & PACKAGING													
INDUSTRY COMPOSITE	9500.0	5	244.3	89	2.6	1.4	5.5	8.1	46	11	41	34790	0.8
(A) GLASS, METAL & PLASTIC													
GROUP COMPOSITE	3875.0	3	134.1	20	3.5	3.0	8.8	13.9	21	21	9	14244	2.1
BALL	549.7	15	5.3	-24	1.0	1.5	7.8	8.8	23	1	-17	1179	1.1
CROWN CORK & SEAL	1892.4	2	41.7	7	2.2	2.0	7.3	9.5	25	24	1	6805	2.1
OWENS-ILLINOIS	1098.5	4	80.4	47	7.3	5.2	10.5	22.5	19	38	23	5586	2.1
SILGAN HOLDINGS	334.4	12	6.7	-39	2.0	3.7	13.9	NM	16	NA	NA	674	2.1
(B) PAPER													
GROUP COMPOSITE	5625.0	6	110.2	526	2.0	0.3	2.5	2.0	NM	5	-1	20546	0.1
AVERY DENNISON	843.6	2	54.2	12	6.4	5.8	18.1	26.1	27	2	27	5625	2.1
BEMIS	451.5	-5	21.9	10	4.9	4.2	11.2	16.7	22	13	17	2379	2.1
JEFFERSON SMURFIT	844.0	8	11.0	NM	1.3	NM	5.4	NM	NM	NA	-58	2164	0.1
MAIL-WELL	274.7	30	9.5	59	3.5	2.8	9.3	21.7	27	76	64	815	1.1
ROCK-TENN (3)	327.9	19	9.8	NM	3.0	NM	6.0	8.9	16	12	-7	540	0.1
SONOCO PRODUCTS	673.3	-2	46.5	13	6.9	6.0	0.9	0.7	NM	9	NA	3881	0.1
STONE CONTAINER	1265.4	7	-69.1	NM	NM	NM	NM	NM	NM	-19	NA	1583	-3.1
TEMPLE-INLAND	944.6	11	26.4	100	2.8	1.6	4.7	3.1	55	5	-7	3559	1.1
8 DISCOUNT & FASHION RETAILING													
INDUSTRY COMPOSITE	147900.3	11	6253.7	22	4.2	3.9	10.6	14.1	31	10	16	420037	1.1
AMES DEPARTMENT STORES (11)	769.4**	9	29.6	43	3.8	2.9	20.1	19.9	15	27	28	506	1.1
AUTOZONE (4)	607.1	13	34.4	17	5.7	5.5	15.1	17.9	23	30	24	4844	1.1
BARNES & NOBLE (11)	968.5	10	69.8	13	7.2	7.0	10.1	13.7	38	40	NA	2401	0.1
BJ'S WHOLESALE CLUB (11)	999.6	15	32.4	25	3.2	3.0	14.8	15.3	21	NA	NA	1437	1.1
BORDERS GROUP (11)	858.8	18	78.9	19	9.2	9.1	14.0	13.4	NM	NA	NA	2408	0.1
BRADLEES (11)	452.7**	0	25.9	NM	5.7	NM	NM	NM	NM	NA	NA	2277	-1.1
BRYLANE (11)	345.8	45	14.0	129	4.0	2.6	14.2	37.0	NM	NA	NA	1002	2.1
BURLINGTON COAT FACTORY (6)	397.1	4	0.4	-89	0.1	1.0	10.8	11.3	15	10	2	948	1.1
CDW COMPUTER CENTERS	384.6	29	14.8	30	3.8	3.8	25.2	25.2	21	71	42	1119	2.1
CHARMING SHOPPES (11)	279.0	3	6.2	179	2.2	0.8	4.5	4.4	NM	2	-26	485	0.1
COLE NATIONAL (11)	265.6	10	5.8	NM	2.2	NM	8.5	13.9	28	NA	-15	557	1.1
CONSOLIDATED STORES (11)	1616.1	9	67.9	-52	4.2	9.6	8.2	8.3	55	37	16	4561	0.1
COSTCO (4)	5795.0**	11	126.0	29	2.2	1.9	12.4	15.1	31	6	9	12059	1.1
DAYTON HUDSON (11)	8953.0**	10	356.0	66	4.0	2.6	11.8	18.6	NM	10	13	18225	1.1
DILLARD'S (11)	2115.7**	7	111.4	0	5.3	5.6	7.6	9.2	16	9	0	3946	2.1
DOLLAR GENERAL (11)	861.1	28	65.0	26	7.5	7.6	24.2	24.2	44	26	34	5248	0.1
FABRI-CENTERS OF AMERICA (11)	311.5	1	21.1	17	6.8	5.9	13.4	13.3	19	7	45	559	1.1
FAMILY DOLLAR STORES (4)	635.9	20	27.6	38	4.3	3.8	15.9	16.5	68	12	3	3013	0.1
FEDERATED DEPARTMENT STORES (11)	5059.8**	1	379.5	31	7.5	5.7	8.2	10.9	19	22	7	10088	2.1
FINGERHUT	367.3	5	5.5	115	1.5	0.7	9.6	10.8	20	10	-1	1337	1.1
FINLAY ENTERPRISES (11)	338.4	20	24.0	18	7.1	7.2	11.6	21.0	15	NA	NA	269	1.1
FOOTSTAR	400.9	6	5.3	6	1.3	1.3	24.2	18.1	19	NA	NA	1097	1.1
GAP (11)	2165.5	30	215.6	26	10.0	10.3	25.7	33.7	NM	13	22	18109	1.1
GOODY'S FAMILY CLOTHING (11)	334.8	22	17.3	69	5.2	3.7	19.7	20.8	NM	15	14	784	1.1
HILLS STORES (11)	630.9	-4	20.9	NM	3.3	NM	NM	-4.1	NM	NA	NA	41	-7.1
HOME DEPOT (11)	5731.5	16	307.4	22	5.4	5.1	14.0	16.3	44	27	24	50240	1.1
HOMEBASE (11)	328.4	6	-3.9	NM	NM	NM	NM	-0.2	NM	1	NA	297	0.1
INTIMATE BRANDS (11)	1397.3	20	159.6	1	11.4	13.6	36.9	66.7	NM	NA	12	6883	1.1
KMART (11)	9759.0	1	186.0	-1	1.9	2.4	5.7	4.6	35	-2	-24	8604	0.1
KOHL'S (11)	1077.8	27	72.6	40	6.7	6.1	11.9	14.8	NM	33	30	6369	0.1
LANDS' END (11)	480.4	13	41.3	10	8.6	8.8	NA	26.4	18	11	14	1106	0.1
LIMITED (11)	3268.4	10	85.3	-60	2.6	7.2	NA	11.0	39	4	-1	8294	1.1
LOWE'S (11)	2397.6	17	72.5	30	3.0	2.7	10.9	13.7	NM	30	27	12009	1.1
MAY DEPARTMENT STORES (11)	4292.0**	5	445.0	5	10.4	10.3	12.5	20.0	NM	3	5	14684	1.1
MERCANTILE STORES (11)	1013.8**	3	72.3	15	7.1	6.3	7.3	7.9	NM	5	10	2471	1.1

CORPORATE SCOREBOARD

COMPANY	SALES		PROFITS		MARGINS		RETURN		5-YEAR GROWTH			MARKET VALUE SHARES OUTSTANDING 4-24 \$ MIL	12 MONTHS' EARNINGS PER SHARE
	1ST QUARTER 1998 \$ MIL	CHANGE FROM 1997 %	1ST QUARTER 1998 \$ MIL	CHANGE FROM 1997 %	1ST QUARTER 1998 %	1ST QUARTER 1997 %	ON INVESTED CAPITAL %	ON COMMON EQUITY %	P-E 4-24	COMMON EQUITY %	EARNINGS PER SHARE %		
YER (FRED) (11)	1869.8	88	52.6	91	2.8	2.8	NA	7.6	31	10	8	6883	1.46
CHAEELS STORES (11)	507.1	3	25.4	209	5.0	1.7	7.1	6.8	31	25	-4	945	1.05
RO WAREHOUSE	551.7	4	9.8	25	1.8	1.5	-10.0	-10.0	NM	46	NA	489	-1.01
MAN MARCUS GROUP (5)	708.4**	7	33.5	31	4.7	3.9	11.8	16.4	NM	153	15	1868	2.01
RDSTROM (11)	1481.2**	10	59.1	38	4.0	3.2	11.5	12.6	NM	7	5	4947	2.40
ICE DEPOT	1981.1	12	55.8	44	2.8	2.2	10.4	13.3	31	28	28	5244	1.06
ICEMAX (11)	1108.3	15	40.0	33	3.6	3.1	7.6	7.7	NM	18	62	2245	0.72
LESS CASHWAYS (1)	394.3	-19	-25.0	NM	NM	NM	NM	NM	NA	-16	NA	65	NA
LESS SHOESOURCE (11)	569.5	9	17.4	15	3.1	2.9	15.3	15.4	NM	NA	NA	2651	3.30
INEY (J. C.) (11)	9751.0**	16	224.0	138	2.3	1.1	6.1	7.6	NM	7	-10	17727	2.10
BOYS-MANNY, MOE & JACK (11)	502.4	13	-27.7	NM	NM	5.1	NA	5.8	28	14	2	1347	0.80
SMART (11)	510.6	12	4.5	-41	0.9	1.7	NM	-9.5	NM	54	NA	1315	-0.28
FFITT'S (11)	1150.1**	4	34.8	-21	3.0	4.0	NA	9.0	47	61	13	2345	0.81
S STORES (11)	572.3	12	40.7	27	7.1	6.3	30.9	30.9	NM	13	32	2315	2.35
S HOLDINGS (11)	671.6**	12	317.1	579	47.2	7.8	NM	61.8	4	NA	NA	1428	5.02
RS, ROEBUCK	9163.0	5	133.0	-27	1.5	2.1	10.4	19.4	20	-14	-13	22501	2.87
VICE MERCHANDISE	594.2	-13	-24.1	NM	NM	NM	NM	-1.9	NM	13	NA	220	-0.06
GEL	590.6	-2	-23.1	NM	NM	NM	NM	-4.1	NM	3	NA	709	-0.19
RTS AUTHORITY (11)	423.0	12	8.0	-52	1.9	4.4	5.1	6.7	NM	20	17	501	0.69
GE STORES (11)	369.4	49	17.5	63	4.7	4.3	9.7	16.8	NM	NA	NA	1334	1.30
PLES (11)	1550.0	33	64.3	37	4.1	4.0	NA	13.5	NM	34	42	5909	0.51
30TS (11)	312.2**	3	-10.3	NM	NM	5.4	2.3	1.5	NM	23	-18	636	0.18
ANY (11)	367.7**	12	42.1	18	11.5	10.9	14.5	16.4	NM	19	34	1546	2.03
(11)	2242.8	15	98.6	31	4.4	3.9	22.0	27.0	NM	23	17	6956	1.76
S 'R' US (11)	4983.0	7	378.2	-1	7.6	8.2	9.7	11.1	NM	9	-2	8048	1.71
OFFICE PRODUCTS (8)	666.0	12	15.4	76	2.3	1.5	NA	3.4	38	573	80	2245	0.45
JE CITY DEPARTMENT STORES (5)	321.5	-2	12.5	-4	3.9	3.9	1.0	0.4	NM	12	-31	622	0.03
NG OFFICE PRODUCTS (6)	417.6	18	25.3	22	6.1	5.9	20.4	20.5	25	31	40	1920	0.92
MART STORES (11)	35386.0	15	1287.0	18	3.6	3.5	13.6	19.1	NM	16	11	112610	1.56
ILWORTH (11)	2002.0	-2	115.0	10	5.7	5.1	13.0	16.8	NM	-7	0	3164	1.57
(5)	522.0	3	58.9	14	11.3	10.2	7.3	9.3	18	NA	NA	1017	1.61

ELECTRICAL & ELECTRONICS

USTRY COMPOSITE	43856.2	8	2845.6	-30	6.5	10.1	12.3	14.3	27	16	22	361832	2.14
-----------------	---------	---	--------	-----	-----	------	------	------	----	----	----	--------	------

ELECTRICAL PRODUCTS

UP COMPOSITE	6913.0	-2	442.4	-10	6.4	7.0	13.6	16.1	19	6	11	37441	2.88
PER INDUSTRIES	1343.1	2	92.0	18	6.9	5.9	12.0	15.9	20	-6	4	7856	3.35
IN	1687.0	-6	105.0	4	6.2	5.6	15.7	22.6	15	19	24	6798	6.06
ERIAL SIGNAL	374.4	-26	23.3	-4	6.2	4.8	15.3	21.2	17	12	48	2099	2.63
BELL	339.7	5	39.9	10	11.7	11.2	14.9	16.1	25	9	12	3289	1.94
NETEK (6)	303.2	1	10.1	10	3.3	3.1	12.2	21.1	17	-19	-3	611	1.17
ONAL SERVICE INDUSTRIES (4)	479.4	-4	23.5	15	4.9	4.1	16.7	18.7	21	0	10	2217	2.51
HEM (6)	445.2	4	39.6	-42	8.9	16.0	23.4	26.4	16	4	206	3346	2.47
WELL INTERNATIONAL (3)	1941.0	2	109.0	-30	5.6	8.2	10.5	10.3	24	12	4	11226	2.30

ELECTRONICS

UP COMPOSITE	15737.9	18	586.9	-10	3.7	4.9	7.1	7.7	29	13	11	86313	1.96
IS (6)	961.6	4	59.9	8	6.2	6.0	10.3	13.4	18	8	19	3987	2.81
IES ELECTRONICS	1291.0	26	53.7	135	4.2	2.2	NA	NA	NA	4	-14	21345	NA
IN INDUSTRIES (5)	973.8	1	40.6	12	4.2	3.8	12.4	15.1	NM	-8	3	2845	3.59
ROLA	6886.0	4	180.0	-45	2.6	4.9	6.6	7.7	34	21	10	34388	1.71
COMM (3)	760.6	30	26.0	55	3.4	2.9	9.4	11.5	32	69	39	3968	1.76
HEON	4574.3	58	214.9	17	4.7	6.3	6.0	5.4	27	16	2	18790	2.06
OR	290.7	-2	11.7	14	4.0	3.5	11.3	16.9	23	42	53	990	1.70

INSTRUMENTS

UP COMPOSITE	4309.6	20	216.8	8	5.0	5.6	9.1	11.6	37	11	16	27121	1.61
MAN COULTER	399.4	72	-8.4	NM	NM	6.7	NM	NM	NM	-16	NA	1516	-10.53
YWELL	1923.3	14	96.3	27	5.0	4.5	15.5	20.7	25	6	7	11786	3.81
ENCOR (6)	274.2	9	29.0	-22	10.6	14.7	11.5	11.2	29	61	67	3592	1.49
IN-ELMER (6)	390.8	12	-7.0	NM	NM	2.7	8.3	8.8	67	6	1	3395	1.05
RONIX (7)	517.6	8	34.2	19	6.6	6.0	NA	10.1	28	12	37	2122	1.52
DYNE	431.6	74	49.6	189	11.5	6.9	16.6	16.3	21	24	36	3223	1.86
IN ASSOCIATES (3)	372.8	10	23.0	33	6.2	5.1	22.3	24.5	12	3	33	1486	4.12

SEMICONDUCTORS & OTHER COMPONENTS

JP COMPOSITE	16895.6	1	1599.6	-42	9.5	16.5	16.3	18.2	27	26	36	210958	2.12
NCED MICRO DEVICES	540.9	2	-62.7	NM	NM	2.3	NM	-4.9	NM	14	NA	4179	-0.68
OG DEVICES (2)	1394.9	0	102.6	1	7.4	7.3	15.2	15.6	19	10	6	8808	2.09
9)	330.7	13	44.3	13	13.4	13.4	13.2	16.2	NM	24	57	6188	1.07
	305.0	2	29.7	-3	9.7	10.2	16.1	16.3	14	NA	17	1863	1.53
IS LOGIC (9)	287.8	35	12.1	NM	4.2	NM	NA	8.0	21	20	2	748	0.52
	6001.0	-7	1273.0	-36	21.2	30.8	25.7	28.9	24	29	43	133599	3.49
CIRCUIT (4)	330.7	49	20.1	82	6.1	5.0	26.0	31.3	20	45	54	1399	1.86
IGIC	324.9	5	30.4	-21	9.4	12.5	8.9	9.6	26	56	18	3951	1.08
ON TECHNOLOGY (4)	755.4	-14	-48.1	NM	NM	16.3	3.7	4.5	54	46	103	6684	0.58
X (6)	409.2	6	46.4	7	11.3	11.2	14.6	14.6	26	14	21	4580	1.14

CORPORATE SCOREBOARD

COMPANY	SALES		PROFITS		RETURN					5-YEAR GROWTH			MARKET VALUE SHARES OUTSTANDING 4-24 \$ MIL.	MO EAP
	1ST QUARTER 1998 \$ MIL.	CHANGE FROM 1997 %	1ST QUARTER 1998 \$ MIL.	CHANGE FROM 1997 %	MARGINS		ON INVESTED CAPITAL %	ON COMMON EQUITY %	P-E 4-24	COMMON EQUITY %	EARNINGS PER SHARE %			
					1ST QUARTER 1998 %	1ST QUARTER 1997 %								
NATIONAL SEMICONDUCTOR (7)	650.1	-9	22.3	-89	3.4	28.1	NA	4.8	39	26	-30	3750	0	
SCI SYSTEMS (6)	1690.0	28	34.3	31	2.0	2.0	14.1	20.9	16	23	68	2544	2	
SOLECTRON (4)	1186.8	38	48.8	30	4.1	4.4	14.1	17.7	29	51	43	5082	1	
TEXAS INSTRUMENTS	2187.0	-3	11.0	-89	0.5	4.5	3.4	3.5	NM	26	5	24407	0	
THOMAS & BETTS	501.3	-4	35.3	16	7.0	5.8	13.0	16.4	20	17	21	3177	0	

10 FOOD

INDUSTRY COMPOSITE	90297.3	5	2868.0	99	3.2	1.7	11.5	19.4	40	4	8	300453	1
(A) FOOD DISTRIBUTION													
GROUP COMPOSITE	15984.9	4	150.6	6	0.9	0.9	9.3	12.4	23	5	6	15161	1
FLEMING	4567.1	4	15.3	190	0.3	0.1	4.7	4.5	15	1	-19	715	1
INTERNATIONAL MULTIFOODS (10)	638.6	0	4.1	NM	0.6	NM	6.8	6.5	26	1	29	532	1
PERFORMANCE FOOD GROUP	353.5	32	2.6	13	0.7	0.8	8.1	10.1	18	55	24	247	1
RICHFOOD HOLDINGS (8)	744.0	-8	17.6	17	2.4	1.9	23.5	22.5	NM	32	22	1299	1
SMART & FINAL	334.3	9	-0.9	NM	NM	1.6	2.3	0.4	NM	14	-8	396	
SUPERVALU (10)	4297.5	10	51.6	-3	1.2	1.4	12.4	19.4	12	4	11	2641	
SYSCO (6)	3711.8	7	63.6	3	1.7	1.8	14.4	22.8	24	7	13	7748	
U. S. FOODSERVICE (6)	1338.1	8	-3.3	NM	NM	0.7	NM	-9.3	NM	NA	NA	1583	
(B) FOOD PROCESSING													
GROUP COMPOSITE	39181.3	4	1936.0	194	4.9	1.7	12.0	19.4	50	2	5	215327	1
BESTFOODS	2121.4	-1	133.4	13	6.3	5.5	19.6	45.3	77	-6	4	16233	1
CAMPBELL SOUP (5)	2342.0	1	311.0	13	13.3	11.9	36.0	62.5	NM	0	18	22643	2
CHIKITA BRANDS INTERNATIONAL	717.2	14	41.1	-5	5.7	6.9	-0.1	-3.6	NM	-3	NA	853	
CONAGRA (7)	5385.0	-1	138.6	-4	2.6	2.7	14.6	24.2	21	3	3	13962	1
CORN PRODUCTS INTERNATIONAL	339.0	1	8.0	NM	2.4	NM	NA	NA	NM	NA	NA	1234	-1
DEAN FOODS (7)	802.6	8	25.0	21	3.1	2.8	14.3	16.3	18	5	7	1858	3
DOLE FOOD	1012.0	5	22.8	-46	2.3	4.4	13.3	21.1	20	-13	17	2744	2
GENERAL MILLS (7)	1424.7	10	131.1	7	9.2	9.5	18.8	91.9	28	-28	-3	10952	2
HEINZ (H. J.) (8)	2236.0	-3	188.2	8	8.4	7.6	10.2	16.0	NM	2	-7	19792	1
HERSHEY FOODS	1098.1	10	75.4	10	6.9	6.9	17.9	40.2	37	-10	10	9853	1
HORMEL FOODS (2)	814.9	1	46.8	123	5.7	2.6	14.0	16.3	NM	6	0	2491	1
IBP	3224.9	3	13.6	-58	0.4	1.0	7.1	8.0	21	20	20	2002	1
IMPERIAL HOLLY (3)	415.0	146	-17.2	NM	NM	1.7	NM	-2.1	NM	11	NA	264	
INTERSTATE BAKERIES (7)	964.8	2	29.9	32	3.1	2.4	15.6	22.2	22	24	2	2258	1
KELLOGG	1642.9	-3	170.7	6	10.4	9.5	24.3	55.6	29	-12	-3	16282	1
MCCORMICK (1)	415.2	2	16.2	7	3.9	3.7	18.9	26.0	24	2	-4	2374	1
NABISCO HOLDINGS	1962.0	3	55.0	-14	2.8	3.4	6.3	10.0	30	NA	13	12691	1
PILGRIM'S PRIDE (3)	324.4	7	6.8	37	2.1	1.6	NM	22.0	10	8	NA	447	
PIONEER HI-BRED INTERNATIONAL (4)	302.0	14	4.0	NM	1.3	NM	20.7	20.2	NM	7	13	8747	2
QUAKER OATS	1092.3	9	47.0	NM	4.3	NM	23.7	97.6	32	9	NA	7470	1
RALSTON PURINA (3)	1110.8	6	86.5	47	7.8	5.6	17.5	21.0	26	5	6	10865	4
SARA LEE (6)	4736.0	2	227.0	10	4.8	4.4	-8.2	-23.9	NM	6	11	28568	-1
SMITHFIELD FOODS (8)	1096.0	1	23.7	51	2.2	1.5	11.8	15.3	NM	22	29	1149	1
STARBUCKS (3)	289.6	35	15.1	57	5.2	4.5	10.0	9.8	59	57	56	4158	1
SUIZA FOODS	593.1	62	18.1	-19	3.0	6.1	NA	NA	53	NA	NA	1687	
TYSON FOODS (3)	1870.8	19	23.3	52	1.2	3.1	4.9	7.9	26	9	-4	4429	
VLASIC FOODS INTERNATIONAL (5)	375.3	-2	18.8	-4	5.0	5.1	11.2	11.6	NM	NA	NA	NA	
WRIGLEY (WM.) JR.	473.2	5	76.1	21	16.1	13.9	28.1	28.9	33	15	12	9321	2
(C) FOOD RETAILING													
GROUP COMPOSITE	35131.1	8	781.4	22	2.2	2.0	11.3	22.7	26	10	20	69965	1
ALBERTSON'S (11)	3789.4	6	174.7	13	4.6	4.3	15.9	21.4	NM	13	14	12041	1
AMERICAN STORES (11)	4980.6	1	96.2	50	1.9	1.3	6.8	12.2	25	8	5	6772	1
DOMINICK'S SUPERMARKETS (2)	588.4	2	9.1	75	1.5	0.9	NM	-27.9	NM	NA	NA	811	
FOOD LION	2305.5	1	55.2	27	2.4	1.9	10.4	13.4	26	8	41	4927	
GENERAL NUTRITION (11)	376.9	19	32.5	83	8.6	5.6	18.2	52.4	28	115	-1	2814	
GIANT FOOD (10)	1423.0	17	36.4	106	2.6	1.5	NA	8.1	30	7	-3	2241	
GREAT ATLANTIC & PACIFIC TEA (10)	2503.1	7	13.4	-42	0.5	1.0	6.0	6.9	18	-7	107	1162	
HANNAFORD BROTHERS	788.3	4	17.8	14	2.3	2.1	8.4	10.3	31	12	5	1905	
KROGER	6388.8	4	107.3	16	1.7	1.5	22.2	NM	25	NA	24	10964	
PENN TRAFFIC (11)	750.6**	8	-12.9	NM	NM	NM	NM	NM	NM	NA	NA	55	
RUDDICK (3)	616.3	9	11.4	2	1.8	2.0	9.5	12.2	18	8	11	847	
SAFEWAY	5389.3	32	164.8	35	3.1	3.0	14.7	30.9	28	51	48	17381	
SOUTHLAND	1615.4**	15	-12.1	NM	NM	0.4	9.0	NM	22	NA	-14	974	
WEIS MARKETS	454.7	0	26.6	46	5.9	4.0	10.0	10.2	17	4	3	1483	
WINN-DIXIE STORES (6)	3160.9	2	61.0	6	1.9	1.8	16.4	15.7	26	8	0	5589	

11 FUEL

INDUSTRY COMPOSITE	111839.9	-14	5995.2	-25	5.4	6.1	11.2	16.1	23	6	18	597194	2
(A) COAL, OIL & GAS													
GROUP COMPOSITE	100139.3	-17	4959.7	-32	5.0	6.0	10.8	15.8	22	5	18	496017	2
AMERADA HESS	1923.0**	-20	-12.6	NM	NM	0.2	0.0	-0.3	NM	0	29	5241	
AMOCO	6629.0	-18	386.0	-43	5.8	8.3	11.3	14.9	34	5	23	41024	
ARCH COAL	312.6	57	15.8	52	5.1	5.3	NM	5.7	29	16	-17	1026	
ASHLAND (3)	1805.0	-42	28.0	NM	1.6	0.1	9.4	12.0	16	12	3	3989	



OUR SOFTWARE IS PULLING TOGETHER THE BIGGEST SINGLE SPORTING EVENT IN HISTORY.

The 1998 World Cup Soccer Tournament is one of the largest media events of all time, with a cumulative television audience of billions. Not to mention 2.5 million spectators, 12,000 volunteers and 12,000 media representatives. They'll all need up-to-the minute information about everything from results to schedules to tickets. Like any business, the World Cup also has accounting, human resources, security and e-commerce needs. And Sybase software is behind it all.

With a Web site (www.france98.com) that may be the most visited in history, capable of handling more than 100 million hits a day, and providing everything from statistics to souvenir sales. So if we can do all that, surely we can keep your company's information systems in top shape.

To learn more about the technology used to make the World Cup a success, and to find out about our World Cup Information Anywhere Enterprise Solutions tour, visit www.sybase.com/events or call 1-800-8-SYBASE (Ref. CPBU).



INFORMATION ANYWHERE

© 1998 Sybase, Inc. All rights reserved. Sybase, the Sybase logo, and Information Anywhere are trademarks of Sybase, Inc. in the United States and other countries.

www.sybase.com

CORPORATE SCOREBOARD

COMPANY	SALES		PROFITS		MARGINS		RETURN		5-YEAR GROWTH				MARKET VALUE SHARES OUTSTANDING 4-24 \$ MIL	MO EAF SH
	1ST QUARTER 1998 \$ MIL	CHANGE FROM 1997 %	1ST QUARTER 1998 \$ MIL	CHANGE FROM 1997 %	1ST QUARTER 1998 %	1ST QUARTER 1997 %	ON INVESTED CAPITAL %	ON COMMON EQUITY %	P-E 4-24	COMMON EQUITY %	EARNINGS PER SHARE %			
ATLANTIC RICHFIELD	3431.0	-29	210.0	-54	6.1	9.5	11.7	18.6	15	6	26	24689	5	
BURLINGTON RESOURCES	432.0	-24	48.0	-63	11.1	23.1	6.9	7.7	35	2	5	8202	1	
CHEVRON	7464.0*	-31	500.0	40	6.7	7.7	12.4	16.7	19	4	11	54074	4	
COASTAL	1956.5	-38	122.9	21	6.3	3.2	7.5	12.1	19	10	39	7307	3	
CROWN CENTRAL PETROLEUM	326.0	-17	-13.7	NM	NM	0.2	3.6	2.3	34	-10	NA	157	0	
EXXON	30228.0**	-14	1890.0	-13	6.3	6.2	13.3	18.7	22	6	13	180590	3	
FINA	1018.2	9	10.0	74	1.0	3.5	5.8	7.6	20	4	35	1967	3	
KERR-McGEE	369.0	21	23.9	-66	6.5	15.0	8.4	10.3	21	0	33	3153	3	
MOBIL	13630.0***	-16	705.0	-15	5.2	5.1	12.5	16.2	21	3	20	61923	3	
MURPHY OIL	440 / **	-13	15.5	-49	3.5	6.0	8.8	10.9	20	-3	15	2315	2	
OCCIDENTAL PETROLEUM	1700.0	11	139.0	9	8.2	6.6	3.4	3.5	NM	0	30	9872	-1	
PHILLIPS PETROLEUM	3093.0	-22	243.0	7	7.9	5.8	11.3	20.3	13	13	38	12600	3	
QUAKER STATE	298.5	1	1.6	-72	0.5	2.0	NM	-3.8	NM	13	NA	667	-0	
SUN	2118.0**	-23	56.0	211	2.6	0.7	15.0	34.8	13	-22	13	2984	3	
TEXACO	8147.0**	-32	259.0	-74	3.2	8.1	11.1	15.2	17	6	20	33342	3	
TOSCO	3047.1	26	41.5	NM	1.4	0.1	8.6	12.9	22	44	34	5587	1	
ULTRAMAR DIAMOND SHAMROCK	2796.6	10	16.4	41	0.6	1.1	6.0	8.5	19	28	5	2903	1	
UNION PACIFIC RESOURCES GROUP†	499.0**	-6	31.2	-73	6.3	22.0	3.6	14.0	24	0	NA	5910	1	
UNOCAL	1207.0**	-17	18.0	-90	1.5	12.9	13.9	21.6	21	-3	25	9974	1	
USX-MARATHON GROUP	5498.0*	34	183.0	69	3.3	2.6	10.0	14.2	19	NA	39	10288	1	
VALERO ENERGY	1362.4	66	-5.9	NM	NM	2.4	6.2	7.3	22	7	9	1895	1	
VASTAR RESOURCES	407.9	-63	48.0	-24	11.8	5.7	NM	44.6	19	162	25	4342	2	
(B) PETROLEUM SERVICES														
GROUP COMPOSITE	11700.6	21	1035.5	39	8.9	7.7	14.6	18.2	27	15	30	101176	1	
BAKER HUGHES (3)	1157.4	36	79.3	37	6.9	6.8	4.7	6.0	46	7	21	6956	0	
BJ SERVICES (3)	395.6	15	38.6	91	9.8	5.9	13.3	15.4	20	55	31	2736	1	
COOPER CAMERON	426.9**	14	33.2	71	7.8	5.2	17.4	24.0	23	NA	NA	3327	2	
DIAMOND OFFSHORE DRILLING	286.1	40	80.7	44	28.2	27.5	14.1	19.0	23	132	NA	6635	2	
DRESSER INDUSTRIES (2)	1736.2**	2	62.1	19	3.6	3.1	15.4	19.6	NM	14	22	8807	1	
EVI	316.8	92	31.3	118	9.9	8.7	11.9	19.1	23	46	165	2331	2	
GLOBAL MARINE	275.1	31	68.2	-13	24.8	37.5	NM	37.8	13	37	72	3950	1	
HALLIBURTON	2355.3	24	117.8	42	5.0	4.4	16.9	18.9	28	5	30	13722	2	
NABORS INDUSTRIES	286.8	20	39.7	85	13.8	9.0	14.7	18.5	20	28	30	2468	1	
R&B FALCON	279.4	38	69.8	56	25.0	22.0	14.7	22.0	27	21	130	4837	2	
SCHLUMBERGER	2800.1	17	350.7	35	12.5	10.8	18.1	19.9	29	9	14	38722	2	
SMITH INTERNATIONAL	423.4	18	28.8	36	6.8	5.9	17.2	23.4	21	26	41	2261	2	
TRANSMONTAIGNE OIL (8)	470.7	38	1.7	21	0.4	0.4	5.8	7.1	34	67	41	357	0	
WESTERN ATLAS	490.7	29	33.6	109	6.8	4.2	8.7	11.8	38	-2	3	4067	1	
12 HEALTH CARE														
INDUSTRY COMPOSITE	87466.8	13	8608.3	17	9.8	9.5	15.5	21.4	41	15	13	1039324	14	
(A) DRUG DISTRIBUTION														
GROUP COMPOSITE	24534.5	17	475.4	30	1.9	1.8	11.2	13.5	34	17	13	49350	1	
AMERISOURCE HEALTH (3)	2192.3	23	16.2	23	0.7	0.7	9.9	180.0	27	NA	NA	1398	2	
ARBOR DRUGS (5)	282.4	13	14.1	32	5.0	4.3	15.1	16.2	NA	14	26	NA	1	
BERGEN BRUNSWIG (3)	3373.6**	17	18.8	-8	0.6	0.7	7.9	12.6	27	11	15	2244	1	
BINDLEY WESTERN INDUSTRIES	1961.8	20	7.6	37	0.4	0.3	9.2	7.5	23	15	14	584	1	
CARDINAL HEALTH (6)	3381.5	20	56.3	34	1.7	1.5	13.8	15.4	43	NA	NA	10103	1	
LONGS DRUG STORES (11)	809.1	-1	21.4	-1	2.6	2.7	9.6	9.9	20	4	4	1132	1	
McKESSON (9)	4672.1**	17	35.7	-3	0.8	0.9	8.8	11.3	40	27	-23	5884	1	
OMNICARE	299.8	65	19.3	44	6.5	7.4	5.7	7.6	47	61	47	2911	0	
PHAR-MOR (6)	277.3	5	-4.7	NM	NM	0.0	NM	-10.7	NM	NA	NA	140	-1	
RITE AID (10)	3190.6	20	119.7	117	3.8	2.1	NA	11.2	26	16	26	8263	1	
WALGREEN (4)	4094.0	14	171.0	16	4.2	4.1	17.6	18.2	35	14	14	16691	0	
(B) DRUGS & RESEARCH														
GROUP COMPOSITE	29727.6	9	5911.1	18	19.9	18.3	23.9	30.2	41	13	13	735980	2	
ABBOTT LABORATORIES	3044.9	2	589.6	10	19.4	17.8	37.0	43.0	26	9	13	54872	1	
ALLERGAN	278.9	8	-122.2	NM	NM	6.9	-1.2	-1.7	NM	12	-1	2583	0	
AMERICAN HOME PRODUCTS	3666.4	2	982.2	70	26.8	16.0	20.0	30.0	24	19	10	58209	0	
AMGEN	605.4	5	187.3	4	30.9	31.3	27.7	32.1	24	18	18	14801	1	
BRISTOL-MYERS SQUIBB	4446.0	10	927.0	14	20.9	20.0	37.5	46.0	31	4	16	101553	1	
LILLY (ELI)	2269.1	16	528.3	22	23.3	22.2	-3.9	-6.3	NM	2	NA	77737	1	
MERCK†	6058.8	9	1164.4	14	19.2	18.3	29.9	37.7	30	16	14	139060	0	
PFIZER	3339.0	11	692.0	15	20.7	20.1	27.4	29.0	67	14	23	153016	1	
PHARMACIA & UPJOHN	1586.0**	-3	189.0	-3	11.9	11.9	5.2	5.5	68	31	-19	20330	1	
SCHERING-PLOUGH	1908.0	22	450.0	20	23.6	23.9	48.3	53.8	40	11	17	59556	1	
SIGMA-ALDRICH	306.2	10	44.2	7	14.4	14.8	15.9	15.9	25	16	12	4141	1	
WARNER-LAMBERT	2218.9	25	279.3	37	12.6	11.5	22.1	33.3	55	16	14	50123	1	



"I just took him through the budget."

—Mark Sweeney, CFO

Clear, wireless service with plans for any budget.

Every big business struggles to keep costs predictable in an unpredictable world. So in addition to 100% digital call clarity, Sprint PCS has Flexible Business Plans that offer affordable, predictable airtime rates. And two new calling features designed to keep costs manageable. Home Rate USA™, included for no extra charge, eliminates roaming charges anytime, anywhere, on our nationwide network. And Toll-Free USA™, which gives you 1,000 minutes of clear wireless long-distance calls for an additional \$9.99 a month. To anywhere in the U.S. Anytime. Sprint PCS. The clear alternative to cellular.



1-888-509-6462 • www.sprintpcs.com/clear

Sprint PCS™

S Home Rate USA™ and Toll-Free USA™ may not be used in conjunction with certain other promotions or rate plans. Subject to business credit approval and withdrawal without notice. Home Rate USA Free USA do not apply when roaming off the Sprint PCS Network. Under Toll-Free USA, long-distance minutes in excess of 1,000 (500 minutes for Southern California and Nevada subscribers) will be \$0.10 a minute. Toll-Free USA may be combined with Weekend or Off-Peak Option but will be billed at \$0.10 a minute. See Business Buyer's Guide materials for complete restrictions and limitations. Sprint Spectrum L.P. All rights reserved. Sprint, Sprint PCS, Sprint Personal Communication Services and the diamond logo are trademarks of Sprint Communications Company L.P., used under license.

CORPORATE SCOREBOARD

COMPANY	SALES		PROFITS		MARGINS		RETURN			5-YEAR GROWTH			MARKET VALUE SHARES OUTSTANDING 4-24 \$ MIL.	MO EAF SI
	1ST QUARTER 1998 \$ MIL	CHANGE FROM 1997 %	1ST QUARTER 1998 \$ MIL	CHANGE FROM 1997 %	1ST QUARTER 1998 %	1ST QUARTER 1997 %	ON INVESTED CAPITAL %	ON COMMON EQUITY %	P-E 4-24	COMMON EQUITY %	EARNINGS PER SHARE %			
(C) HEALTH-CARE SERVICES														
GROUP COMPOSITE	20987.8	17	782.8	-7	3.7	4.7	4.0	4.4	70	31	16	78051	0	
BEVERLY ENTERPRISES	694.4**	-15	18.0	-2	2.6	2.3	6.0	6.7	26	12	44	1562	0	
COLUMBIA/HCA HEALTHCARE	4901.0	-2	219.0	-52	4.5	9.1	2.0	-0.7	NM	NA	NA	20807	-0	
COVENTRY HEALTH CARE	330.2	10	4.7	NM	1.4	NM	11.5	14.8	33	11	-11	574	0	
EXPRESS SCRIPTS	371.4	42	9.9	29	2.7	2.9	16.6	16.6	36	51	42	1265	2	
HEALTH MANAGEMENT ASSOCIATES (3)	302.9	27	40.5	27	13.4	13.4	18.9	20.7	45	32	33	5359	0	
HEALTHSOUTH	907.7	31	109.4	69	12.1	9.3	10.5	11.9	29	65	51	11506	1	
HUMANA	2402.0	31	50.0	28	2.1	2.1	8.5	11.6	24	13	-13	4296	1	
INTEGRATED HEALTH SERVICES	855.2**	85	38.1	100	4.5	4.1	0.2	0.7	NM	44	NA	1569	-0	
LABORATORY CORP. OF AMERICA HOLDINGS	373.0	-5	9.3	289	2.5	0.6	NM	NM	NM	1	NA	263	-1	
MANOR CARE (7)	468.1	20	28.0	-54	6.0	15.8	7.1	12.3	24	20	8	2233	1	
NOVACARE (6)	451.8	56	12.6	25	2.8	3.5	7.2	10.2	16	18	-13	858	0	
OXFORD HEALTH PLANS	1220.0**	24	-45.3	NM	NM	3.5	NM	NM	NM	51	NA	1306	-4	
PHYCOR	322.7	29	-7.5	NM	NM	4.9	1.0	-2.3	NM	73	-24	1476	-0	
QUEST DIAGNOSTICS	367.9	-5	6.6	63	1.8	1.0	NM	-3.7	NM	NA	NA	564	-0	
QUORUM HEALTH GROUP (6)	398.3	6	13.6	-43	3.4	6.4	8.9	14.4	30	65	94	2371	1	
SUN HEALTHCARE GROUP	741.5	86	18.4	15	2.5	4.0	4.5	9.3	15	130	4	843	1	
TENET HEALTHCARE (7)	2564.0	15	148.0	NM	5.8	NM	4.7	5.3	64	15	NA	11926	0	
UNITED WISCONSIN SERVICES	404.9	-2	6.4	90	1.6	0.8	6.0	6.5	25	29	-22	530	1	
UNIVERSAL HEALTH SERVICES	463.1**	36	25.7	19	5.5	6.3	10.8	13.6	27	22	24	1879	2	
VENCOR	823.3	21	18.9	-44	2.3	5.0	6.9	13.3	16	58	10	1881	1	
WELLPOINT HEALTH NETWORK	1624.5**	28	58.5	15	3.6	4.0	15.8	18.0	21	-5	4	4985	3	
(D) MEDICAL PRODUCTS														
GROUP COMPOSITE	12217.0	7	1438.9	26	11.8	10.0	16.6	21.4	36	11	14	175942	1	
BARD (C. R.)	296.3	-1	24.9	-5	8.4	8.7	10.3	12.4	29	11	1	2116	1	
BAUSCH & LOMB	553.1	23	-49.4	NM	NM	0.7	3.2	-0.4	NM	-2	-14	2809	-0	
BAXTER INTERNATIONAL	1468.0	2	164.0	NM	11.2	NM	14.1	25.5	23	-7	-9	15262	2	
BECTON, DICKINSON (3)	738.4	6	92.3	12	12.5	11.8	16.8	23.0	30	-3	13	8949	2	
BOSTON SCIENTIFIC	470.0	9	66.9	-11	14.2	17.5	9.8	14.3	90	39	-1	13276	0	
GUIDANT	470.3	77	55.3	43	11.8	14.5	27.2	28.7	56	-6	10	9290	0	
JOHNSON & JOHNSON	5783.0	1	1010.0	11	17.5	15.9	25.6	27.5	28	21	15	95000	2	
MALLINCKRODT (6)	691.2	47	35.9	-28	5.2	10.6	NM	-34.7	NM	NA	11	2491	-3	
MEDTRONIC (8)	631.4**	5	7.3	-94	1.2	21.5	23.4	23.4	NM	20	27	23842	0	
OWENS & MINOR	798.0	6	6.8	35	0.8	0.7	8.8	14.5	27	2	-3	564	0	
U. S. SURGICAL	317.3	11	25.0	-16	7.9	10.4	5.0	6.9	27	20	5	2343	0	
13 HOUSING & REAL ESTATE														
INDUSTRY COMPOSITE	14906.2	13	700.3	27	4.7	4.2	13.0	20.4	20	7	15	63342	2	
(A) BUILDING MATERIALS														
GROUP COMPOSITE	9989.1	9	518.3	20	5.2	4.7	13.9	24.0	20	5	16	49923	2	
AMERICAN STANDARD	1493.0	10	36.0	6	2.4	2.5	23.2	NM	29	NA	NA	3387	0	
JOHNS MANVILLE	389.3	3	26.0	5	6.7	7.3	14.0	18.6	21	-2	34	2686	0	
LAFARGE	267.3	10	-28.2	NM	NM	NM	13.8	15.0	15	12	103	2903	0	
MASCO	1039.0	22	110.6	32	10.6	9.8	12.9	18.4	23	1	13	9272	0	
OWENS CORNING	1137.0	30	8.0	-81	0.7	4.8	NM	NM	NM	NA	-4	2181	0	
PPG INDUSTRIES	1913.0	8	192.0	16	10.0	9.3	19.7	29.5	17	-1	27	12542	0	
RPM (7)	350.5	18	5.5	-26	1.6	2.5	8.5	16.3	21	19	11	1677	0	
SHERWIN-WILLIAMS	1104.1	3	25.2	9	2.3	2.2	12.8	16.5	22	12	13	5771	0	
TECUMSEH PRODUCTS	459.9	4	24.9	-21	5.4	6.6	9.7	9.4	12	10	13	1147	0	
USG	735.0	9	67.0	347	9.1	2.2	25.0	136.1	13	NA	NA	2532	0	
VULCAN MATERIALS	359.0	5	36.5	67	10.2	6.4	19.7	22.6	18	7	25	3851	0	
YORK INTERNATIONAL	742.0	-7	14.7	-1	2.0	1.9	6.6	7.2	45	11	-4	1976	0	
(B) CONSTRUCTION & REAL ESTATE														
GROUP COMPOSITE	4917.1	23	182.0	56	3.7	2.9	10.1	13.6	18	12	12	13419	0	
CENTEX (9)	1139.2**	20	44.0	52	3.9	3.1	NA	15.3	16	9	16	2279	0	
CHAMPION ENTERPRISES	463.0	28	17.6	29	3.8	3.8	26.5	23.6	19	57	50	1328	0	
CLAYTON HOMES (6)	268.4	18	31.1	18	11.6	11.6	16.9	16.4	18	21	22	2405	0	
FLEETWOOD ENTERPRISES (8)	710.6	13	21.1	53	3.0	2.2	20.8	19.3	17	2	17	1682	0	
HORTON (D. R.) (3)	277.5	74	11.7	75	4.2	4.2	9.4	9.7	18	37	22	782	0	
KAUFMAN & BROAD HOME (1)	426.2	23	8.1	82	1.9	1.3	9.4	15.9	20	0	10	1214	0	
LENNAR (1)	440.7	90	16.2	65	3.7	4.2	5.8	10.4	24	9	9	1714	0	
PULTE	520.6**	21	10.9	783	2.1	0.3	5.5	7.2	20	12	-4	1134	0	
RYLAND GROUP	336.3	2	4.7	170	1.4	0.5	6.6	7.4	15	0	-7	354	0	
U. S. HOME	334.5**	6	16.6	63	5.0	3.2	10.8	12.3	11	41	-6	526	0	
14 LEISURE TIME INDUSTRIES														
INDUSTRY COMPOSITE	29021.4	3	1656.1	41	5.7	4.1	7.8	10.4	38	22	9	261310	0	
(A) EATING PLACES														
GROUP COMPOSITE	7978.2	2	527.5	12	6.6	6.1	9.2	16.2	27	13	13	57493	0	
BRINKER INTERNATIONAL (6)	401.0	16	16.1	21	4.0	3.9	10.0	11.7	23	17	3	1486	0	
CKE RESTAURANTS (11)	324.7	90	12.5	102	3.9	3.6	8.8	9.9	NM	15	97	1599	0	
CRACKER BARREL OLD COUNTRY STORES (5)	321.8	20	20.3	27	6.3	6.0	12.3	13.3	NM	22	16	2247	0	
DARDEN RESTAURANTS (7)	811.3	1	29.8	89	3.7	2.0	NM	-5.1	NM	NA	NA	2195	0	



*The new, faster Lexmark Optra S Printers:
crack down new savings on your company's printing.*



With the new 1998 Lexmark Optra™ 5 laser printers, real savings are right under your nose. Four new models with processors that run up to three times faster. So you get crissi 1,200 dpi printouts without wasting time. And that's just the beginning.

Exclusive Optra S features also save you on toner, paper and power. Interchangeable accessories, such as cartridges and paper trays, keep you from having to stockpile supplies. Network compatibility makes it a snap to hook up and run. And with four models between 12 and 24 ppm, you pay only for the speed you need.

To greatly reduce your printing costs, follow the breed that's leading the way. Lexmark. To learn more, call 1-800-LEXMARK (1-800-539-6275) or stop by www.lexmark.com.

A **bolder** new breed of performance printers.

**PRINT
LEXMARK**

G ZINE ORS' ICE

June 10, 1997
Lexmark Optra S 1250
Lexmark Optra S 1650

CORPORATE SCOREBOARD

COMPANY	SALES		PROFITS		MARGINS		RETURN		5-YEAR GROWTH			MARKET VALUE SHARES OUTSTANDING 4-24 \$ MIL	MKT FAVOR NO 1 2 3 4 5
	1ST QUARTER 1998 \$ MIL	CHANGE FROM 1997 %	1ST QUARTER 1998 \$ MIL	CHANGE FROM 1997 %	1ST QUARTER 1998 %	1ST QUARTER 1997 %	ON INVESTED CAPITAL %	ON COMMON EQUITY %	P-E 4-24	COMMON EQUITY %	EARNINGS PER SHARE %		
HOST MARRIOTT SERVICES	277.3	5	-3.9	NM	NM	NM	14.5	NM	25	NA	NA	500	0
McDONALD'S	2804.9	7	362.2	5	12.9	13.2	12.9	18.5	25	11	13	39856	2
OUTBACK STEAKHOUSE	324.0	20	22.3	29	6.9	6.3	17.5	15.3	28	36	29	1837	1
SHONEY'S (2)	336.6	-7	-9.6	NM	NM	NM	NM	NM	NM	NA	NA	253	-0
TRICON GLOBAL RESTAURANTS	1921.0	-14	54.0	4	2.8	2.3	NM	NM	NA	NA	NA	4921	0
WENDY'S INTERNATIONAL	455.6	-1	23.8	-3	5.2	5.4	8.6	11.0	23	18	11	2599	0
(B) ENTERTAINMENT													
GROUP COMPOSITE	9385.6	1	392.4	20	4.2	3.5	5.9	7.2	46	43	8	107525	1
CIRCUS CIRCUS ENTERPRISES (11)†	325.2**	7	0.7	-95	0.2	5.0	NA	8.0	20	27	-8	1759	0
DISNEY (WALT) (3)	5242.0	4	384.0	15	7.3	6.1	8.8	11.1	42	34	15	82679	2
HARRAH'S ENTERTAINMENT	414.4	11	24.9	46	6.0	4.6	10.2	15.7	NA	11	13	2595	0
METRO-GOLDWYN-MAYER	316.5	60	-18.6	NM	NM	NM	NM	-9.6	NM	37	NA	1488	-3
VIACOM	3087.5	6	1.4	NM	0.0	NM	3.1	2.8	57	85	-4	19004	0
(C) HOTEL & MOTEL													
GROUP COMPOSITE	3588.0	12	166.0	21	4.6	4.3	7.8	12.3	30	36	16	16614	1
HILTON HOTELS	1396.0	7	77.0	13	5.5	5.2	5.6	7.3	35	31	13	8186	0
MARRIOTT INTERNATIONAL	2192.0	15	89.0	29	4.1	3.6	12.5	23.7	26	22	19	8429	1
(D) OTHER LEISURE													
GROUP COMPOSITE	8069.6	1	570.2	143	7.1	2.9	10.5	12.3	40	7	3	79678	1
AMERICAN GREETINGS (10)	599.3	-2	54.7	3	9.1	8.8	12.7	13.9	19	9	9	3444	2
BRUNSWICK	904.2	7	58.9	12	6.5	6.3	9.2	12.0	20	11	33	3152	1
CARNIVAL (1)	557.8	7	109.9	29	19.7	16.4	16.5	19.2	29	22	18	20006	2
EASTMAN KODAK	2911.0	-7	225.0	51	7.7	4.8	3.4	2.6	NM	-7	-49	23322	0
HARLEY-DAVIDSON	466.5**	9	44.7	11	9.6	9.4	15.9	20.8	30	21	40	5274	1
HASBRO	482.8	-13	7.8	-70	1.6	4.6	7.4	6.5	43	10	-4	5004	0
MATTEL	705.2	2	12.7	NM	1.8	NM	22.6	27.3	24	26	15	11573	1
MUSICLAND STORES	392.4	4	-3.6	NM	NM	NM	NM	194.5	13	-54	-15	425	0
POLAROID	390.6	-15	-17.4	NM	NM	3.5	NM	-35.2	NM	-9	NA	1971	-3
ROYAL CARIBBEAN CRUISES	659.8	67	77.5	102	11.8	9.8	8.6	11.4	25	22	14	5507	2
15 MANUFACTURING													
INDUSTRY COMPOSITE	47586.2	13	2081.1	-16	4.4	5.9	12.9	19.1	23	11	21	255727	2
(A) GENERAL MANUFACTURING													
GROUP COMPOSITE	16479.1	9	1185.1	21	7.2	6.5	16.6	21.6	21	4	7	109122	2
AEROQUIP-VICKERS	547.1	2	31.2	447	5.7	1.1	18.3	23.4	15	11	62	1857	4
CARLISLE	363.1	26	19.0	41	5.2	4.7	15.3	21.9	20	11	24	1515	2
COLTEC INDUSTRIES	374.4	21	25.2	17	6.7	7.0	NA	NM	16	NA	1	1605	1
CORNING	803.9**	-3	62.1	-27	7.7	10.3	17.5	31.7	23	-10	6	9264	1
CRANE	526.8	13	29.9	32	5.7	4.8	16.5	21.4	20	15	33	2408	2
FORTUNE BRANDS	1116.4	9	53.0	51	4.7	3.4	2.0	1.5	NM	-3	-36	6455	0
HILLENBRAND INDUSTRIES (1)	479.0	7	43.0	10	9.0	8.7	15.9	18.2	26	9	7	4248	2
ILLINOIS TOOL WORKS	1341.0	9	148.7	21	11.1	10.0	16.7	21.1	28	18	24	17020	2
JOHNSON CONTROLS (3)	3007.3	10	52.5	NM	1.7	NM	13.8	16.6	19	8	14	4903	3
MARK IV INDUSTRIES (10)	554.9	7	24.3	3	4.4	4.5	NA	14.4	13	22	2	1268	1
MINNESOTA MINING & MFG.	3700.0	0	400.0	-2	10.8	11.0	30.4	35.6	18	-2	11	37361	9
NEWELL	747.3	19	149.9	297	20.1	6.0	14.5	23.5	20	15	13	7743	2
PARKER HANNIFIN (6)	1196.5	14	83.2	7	7.0	7.4	16.5	19.9	15	12	43	4872	2
RUBBERMAID	649.7	8	9.0	-73	1.4	5.7	11.7	11.2	36	0	-7	4220	0
TELEFLEX	345.8	28	19.9	19	5.7	6.2	11.8	15.8	23	14	16	1617	1
TOWER AUTOMOTIVE	457.1	265	18.8	180	4.1	5.4	6.7	11.4	20	137	34	1151	2
TUPPERWARE	268.8	-15	15.4	-38	5.7	7.9	20.1	33.8	22	NA	NA	1616	1
(B) MACHINE & HAND TOOLS													
GROUP COMPOSITE	3999.9	15	-814.9	NM	NM	4.4	-2.9	-8.1	NM	12	45	17094	-0
BLACK & DECKER	1008.3	-1	-971.4	NM	NM	2.6	NM	NM	NM	16	21	4724	-8
CINCINNATI MILACRON	477.4	26	17.6	35	3.7	3.4	14.2	18.2	14	37	30	1211	2
KENAMETAL (6)	496.6	68	20.7	4	4.2	6.7	5.8	13.1	20	15	43	1361	2
LINCOLN ELECTRIC	303.0	8	23.7	13	7.8	7.5	18.3	19.4	13	24	16	1181	3
NACCO INDUSTRIES	599.3	25	24.1	761	4.0	0.6	13.3	19.5	17	14	33	1377	10
SNAP-ON	443.4**	13	33.9	0	7.7	8.6	14.9	17.4	18	6	18	2644	2
STANLEY WORKS	671.9	4	36.4	-1	5.4	5.7	NM	-6.7	NM	-1	NA	4595	0
(C) SPECIAL MACHINERY													
GROUP COMPOSITE	22509.8	15	1571.4	28	7.0	6.3	14.0	21.7	20	22	57	116284	2
AGCO	701.5	0	32.7	18	4.7	3.9	10.8	17.6	10	57	49	1681	2
APPLIED MATERIALS (2)	1307.7	56	228.9	674	17.5	3.5	19.8	22.5	20	49	63	13529	1
BRIGGS & STRATTON (6)	469.1	-1	35.8	-23	7.6	9.8	12.7	14.9	24	5	5	1114	1
CASE	1381.0**	12	69.0	8	5.0	5.2	14.4	17.2	12	23	28	4580	5
CATERPILLAR	4794.0	12	430.0	9	9.0	9.2	18.0	36.4	13	24	27	20954	4
CUMMINS ENGINE	1500.0	15	7.0	-83	0.5	3.1	9.7	12.5	12	27	15	2035	4
DEERE (2)	2846.1**	19	203.3	15	7.1	7.4	18.6	23.8	NM	12	77	14946	3
DOVER	1148.6	14	90.0	15	7.8	7.8	22.3	23.5	21	17	29	8737	1

CORPORATE SCOREBOARD

COMPANY	SALES		PROFITS		MARGINS		RETURN			5-YEAR GROWTH			MARKET VALUE SHARES OUTSTANDING 4/74 \$ MIL.	12 MONTHS' EARNINGS PER SHARE
	1ST QUARTER 1998 \$ MIL.	CHANGE FROM 1997 %	1ST QUARTER 1998 \$ MIL.	CHANGE FROM 1997 %	1ST QUARTER 1998 %	1ST QUARTER 1997 %	ON INVESTED CAPITAL %	ON COMMON EQUITY %	P/E 4-24	COMMON EQUITY %	EARNINGS PER SHARE %			
C	1022.4	3	26.8	26	2.6	2.1	NM	4.9	NM	36	NA	2691	-0.48	
RNISCHEFGER INDUSTRIES (2)	644.5	-9	21.7	-30	3.4	4.4	11.2	19.3	NM	7	16	1400	3.01	
ERSOLL-RAND	2002.9	22	99.1	27	4.9	4.7	10.6	17.2	20	14	27	8074	2.42	
NTAIR	465.0	13	23.7	22	5.1	4.7	11.8	15.8	19	17	16	1582	2.20	
EWART & STEVENSON SERVICES (11)	334.3	17	-29.7	NM	NM	2.3	NM	-2.9	NM	13	-8	763	-0.43	
AKEN	707.4	10	49.1	20	6.9	6.4	15.1	17.3	13	4	103	2295	2.81	
CO INTERNATIONAL (3)	2852.0	22	276.2	69	9.7	7.0	13.3	NA	34	28	NA	30659	1.66	
OVA	333.4	3	7.8	-33	2.3	3.6	NM	NA	NM	NA	NA	1244	-3.24	
TEXTILES														
GROUP COMPOSITE	4597.5	11	139.5	12	3.0	3.0	7.7	15.1	29	9	12	13227	0.91	
RLINGTON INDUSTRIES (3)	518.0	-4	24.6	16	4.7	3.9	6.3	9.6	16	5	-12	960	1.09	
LLINS & AIKMAN	478.1	15	8.7	-23	1.8	2.7	-1.8	NM	NM	NA	NA	550	-0.19	
TER	289.9	6	14.2	11	4.9	4.7	12.4	15.1	17	4	10	950	2.48	
ERFACE	319.0	24	10.3	62	3.2	2.5	8.6	10.6	25	12	18	1025	1.67	
HAWK INDUSTRIES	459.8	12	14.7	72	3.2	2.1	13.0	17.6	23	32	9	1666	1.42	
LOWTEX	366.4	222	5.6	241	1.5	1.5	2.9	5.7	52	67	-6	505	0.90	
AW INDUSTRIES	865.0	7	19.5	81	2.3	1.3	5.3	7.3	57	5	-20	2172	0.29	
RINGS INDUSTRIES	556.7	3	-3.1	NM	NM	2.1	7.0	7.1	20	9	9	1034	2.64	
IFI (6)	346.0	-21	33.3	6	9.6	7.2	12.3	20.6	20	5	5	2390	1.96	
STPOINT STEVENS	398.7	12	11.7	30	2.9	2.5	14.7	NM	29	NA	NA	1975	1.16	
METALS & MINING														
GROUP COMPOSITE	23611.7	2	1062.0	-3	4.5	4.7	9.0	12.6	18	11	2	72692	1.79	
ALUMINUM														
GROUP COMPOSITE	7013.4	4	325.8	40	4.6	3.4	9.8	13.4	19	6	10	21881	3.02	
IMAX	775.3	10	44.0	65	5.7	3.8	2.3	3.1	53	9	-9	2560	0.93	
MINUM CO. OF AMERICA	3445.1	7	209.9	32	6.1	4.9	16.2	19.6	16	5	169	13127	4.92	
SER ALUMINUM	597.0	9	12.0	362	2.0	0.5	12.3	41.4	16	-11	NA	869	0.71	
XXAM	664.0	5	1.9	171	0.3	0.1	NM	NM	8	NA	NA	430	7.33	
MOLDS METALS	1532.0**	6	58.0	35	3.8	2.6	5.3	5.7	32	9	-8	4896	2.05	
STEEL														
GROUP COMPOSITE	11246.4	5	397.4	8	3.5	3.5	10.9	15.6	12	23	1	22510	1.97	
STEEL HOLDING	588.2	-2	28.4	-18	4.8	5.8	10.1	15.9	9	24	-23	1224	2.35	
ICO	447.7	1	20.3	116	4.5	2.1	29.6	NM	10	NA	3	696	0.67	
HLEHEM STEEL	1132.5	-5	68.6	79	6.1	3.2	21.0	22.4	7	22	NA	1730	2.21	
MINGHAM STEEL (6)	298.2	16	-4.1	NM	NM	0.2	1.7	1.6	66	19	-7	473	0.24	
PENTER TECHNOLOGY (6)	329.0	31	22.1	42	6.7	6.2	9.9	16.9	15	9	32	1137	3.83	
AMERICAL METALS (4)	568.2**	8	8.3	16	1.5	1.4	8.6	10.4	13	12	25	499	2.55	
AND STEEL INDUSTRIES	1293.3	7	21.8	-30	1.7	2.6	9.2	10.9	15	24	-1	1403	1.95	
	1127.0	5	19.0	-29	1.7	2.5	1.6	1.8	42	NA	NA	1300	0.31	
IONAL STEEL	708.4	-7	5.9	-78	0.8	3.5	20.1	22.8	4	32	-7	814	4.35	
OR	1138.9	13	65.1	0	5.7	6.4	12.4	15.7	17	20	28	5115	3.35	
IGE INDUSTRIES	319.0	-5	4.1	-56	1.3	2.8	3.9	3.9	19	46	-33	333	0.79	
AS INDUSTRIES (7)	286.5**	31	18.6	84	6.5	4.6	13.0	18.2	15	11	141	1371	4.44	
(-U. S. STEEL GROUP	1696.0	5	87.0	0	5.1	5.4	20.1	24.9	8	NA	25	3371	4.90	
LTER INDUSTRIES (7)	453.8	33	7.7	NM	1.7	NM	5.9	16.9	20	NA	NA	1147	1.02	
IRTON STEEL	341.3	-2	2.2	NM	0.7	NM	NM	-2.4	NM	-9	NA	168	-0.08	
RTINGTON INDUSTRIES (7)	518.5	7	22.3	2	4.3	4.5	7.7	12.3	18	13	10	1729	0.98	
OTHER METALS														
GROUP COMPOSITE	5351.9	-8	338.8	-32	6.3	8.6	6.7	9.0	27	10	18	28302	1.12	
IRCO	633.5	-11	-31.8	NM	NM	5.7	6.4	4.3	16	5	25	1013	1.62	
IRUS AMAX MINERALS	732.0	-18	5.0	91	0.7	6.4	NM	-0.1	NM	15	-29	1569	0.02	
ELHARD	970.6**	10	43.2	15	4.4	4.3	7.1	6.7	51	7	10	2781	0.38	
EX INTERNATIONAL	385.4	6	21.7	13	5.6	4.7	15.6	26.6	13	NA	NA	1080	2.84	
EXPORT-McMORAN COPPER & GOLD	396.1	-24	35.6	-50	9.0	13.7	9.7	NM	22	7	27	3685	0.90	
IERAL CABLE	278.6	11	13.5	57	4.8	3.4	17.8	42.9	20	-10	NA	1130	2.35	
ISCO	401.3	3	24.3	34	6.1	4.6	12.1	13.6	21	3	6	2155	2.20	
VMONT GOLD	378.1	7	32.8	-40	8.7	15.4	NM	3.0	NM	13	-9	5654	0.32	
VMONT MINING	378.1	7	30.8	-40	8.1	14.4	NM	3.0	NM	23	11	5212	0.32	
LPS DODGE	798.3	-22	163.7	19	20.5	13.5	12.0	16.4	10	7	19	4021	7.21	
NONBANK FINANCIAL														
GROUP COMPOSITE	113238.1	16	11926.8	22	10.5	10.0	16.7	17.0	20	17	17	791217	3.51	
FINANCIAL SERVICES														
GROUP COMPOSITE	61655.6	19	6164.0	21	10.0	9.8	20.0	20.9	21	20	16	431965	2.99	
ERICAN EXPRESS	4521.0**	9	460.0	1	10.2	10.9	13.5	20.9	24	5	29	47056	4.19	
OCIATES FIRST CAPITAL	2231.1	16	281.0	18	12.6	12.3	9.5	17.1	24	26	NA	26247	3.10	
R STEARNS (6)	1927.6	28	166.3	1	8.6	11.0	27.1	20.2	13	18	12	6715	4.52	
EFICIAL	976.7	26	187.5	86	19.2	13.0	11.0	20.2	21	9	11	6905	6.08	
ITAL ONE FINANCIAL	573.9	39	65.7	55	11.4	10.3	11.7	21.5	31	23	17	6349	3.13	
GROUP	539.0	9	81.7	17	15.2	14.2	10.6	12.9	18	8	NA	5823	2.01	
INDRYWIDE CREDIT INDUSTRIES (10)	729.2	144	85.1	25	11.7	22.8	5.5	16.6	16	24	14	5337	3.09	
IALDSON, LUFKIN & JENRETTE	2259.5	42	134.2	55	5.9	5.4	70.1	23.7	14	30	53	5334	6.95	

1-800-544-0576
www.fidelity.com

Fidelity  Investments



Funds
from this
company
are available
through
FundsNetwork.

CURRENT INCOME. 5 STARS. YOU SHOULD KNOW WHAT INVESCO KNOWS.

1-800-235-5766, EXT. 121

Leave the principal to the rewards. That's the basic idea behind the INVESCO Select Income Fund. At least 90% of the fund's assets are in bonds and marketable debt securities of established companies that may provide high current income. Morningstar[®] has also awarded the income fund a five-star rating for its overall risk-adjusted performance. Of course, past performance is no guarantee of future results.

To learn more about this no-load fund, just call INVESCO or your financial advisor. We'll send you a free investment kit including a prospectus containing information about management fees, risks and expenses. Please read it carefully before you invest or send money.



INVESCO

WWW.INVESCO.COM

The INVESCO Select Income Fund offers you a combination of current income and five star risk-adjusted performance.

INVESCO SELECT INCOME FUND

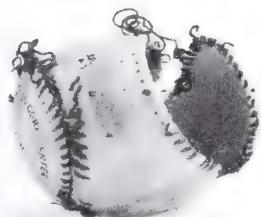
Morningstar Risk-Adjusted
Ratings as of 3/31/98

Overall ★★★★★
3-Year ★★★★★
5-Year ★★★★★
10-Year ★★★★★

Morningstar's Highest Rating
As of 3/31/98, the INVESCO Select Income Fund has earned 5 stars for its overall risk-adjusted performance. The number of funds within the taxable bond fund rating universe tracked by Morningstar are 1403, 831 and 329 on a 3-, 5- and 10 year basis, respectively. Annualized total return² for the INVESCO Select Fund is 14.83%, 8.70% and 9.61% on a 1-, 5- and 10 year basis for the period ending 3/31/98.

FundsNetwork is a service of Fidelity Brokerage Services, Inc. (FBSI). Member NYSE, SIPC. FBSI may receive remuneration for providing certain recordkeeping and shareholder services to the fund family. FBSI does not recommend or endorse any particular mutual fund.

Morningstar proprietary rankings reflect historical risk-adjusted performance and are subject to change every month. Ratings are calculated from the fund's three-, five- and ten-year average annual total return (based on available track records) in excess of 90-day Treasury bill returns. The top 10% of funds in an investment category receive 5 stars, the next 22.5% receive 4 stars, and the next 35% 3 stars. Total and cumulative returns assume reinvestment of all dividends and capital gain distributions. Investment return and principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. © 1998 INVESCO Distributors, Inc., Distributor



LARGE CAP 20

ONE YEAR	SINCE INCEPTION*
+72.8%	+42.2%
annualized as of 3/31/98	



LARGE CAP GROWTH

ONE YEAR	SINCE INCEPTION*
+60.8%	+33.4%
annualized as of 3/31/98	



STRATEGIC SMALL CO.

ONE YEAR	SINCE INCEPTION*
+56.5%	+30.0%
annualized as of 3/31/98	



SELECT EQUITY

ONE YEAR	SINCE INCEPTION*
+51.8%	+35.9%
annualized as of 3/31/98	

LOOKING TO PUT MORE POWER IN YOUR LINEUP?

Then perhaps you should consider these PBHG growth funds, dynamic young funds run by experienced managers who have consistently knocked the cover off the ball. Investors considering such funds should have a long-term investment horizon and a tolerance for volatility.

CALL FOR A FREE KIT ON PBHG GROWTH INVESTING

1-888-PBHG-323

PBHG

www.pbhgfunds.com

Past performance cannot guarantee future results.

Return and share price will fluctuate, and redemption value may be more or less than original costs. Call for a prospectus containing more complete information, including expenses and read it carefully before investing. Because the PBHG Large Cap 20 Fund is not diversified, it can take larger positions in fewer companies, increasing the overall reward and risk profile of the fund. Distributed by SEI Investments Distribution Co., Oaks, PA. *Strategic Small Company; inception 12/31/96. Large Cap Growth; inception 4/5/95. Large Cap 20; inception 11/29/96. Select Equity; inception 4/5/95.

FIDELITY INVESTMENTS®
FUNDS
NETWORK®

**Funds
from this
company
are available
through
FundsNetwork.**

FundsNetwork is a service of Fidelity Brokerage Services, Inc. (FBSI). Member NYSE, SIPC. FBSI may receive remuneration for providing certain recordkeeping and shareholder services to the fund family. FBSI does not recommend or endorse any particular mutual fund.

CORPORATE SCOREBOARD

COMPANY	SALES		PROFITS		MARGINS		RETURN			5-YEAR GROWTH			MARKET VALUE SHARES OUTSTANDING 4-24 \$ MIL.	12 MONTH EARNINGS PER SHARE
	1ST QUARTER 1998 \$ MIL.	CHANGE FROM 1997 %	1ST QUARTER 1998 \$ MIL.	CHANGE FROM 1997 %	1ST QUARTER 1998 %	1ST QUARTER 1997 %	ON INVESTED CAPITAL %	ON COMMON EQUITY %	P-E 4-24	COMMON EQUITY %	EARNINGS PER SHARE %			
DUN & BRADSTREET	471.1	8	51.5	41	10.9	8.4	NM	NM	18	NA	-10	5959	1.89	
EDWARDS (A. G.) (10)	527.6	16	73.1	23	13.9	13.0	NA	19.2	16	21	14	4320	2.75	
EQUIFAX	353.1	13	44.7	16	12.7	12.4	28.6	54.9	30	9	25	5517	1.31	
FANNIE MAE	7402.1**	11	832.5	13	11.2	11.0	NA	24.2	20	14	12	60341	2.98	
FIRST AMERICAN FINANCIAL	605.0**	58	45.0	NM	7.4	0.7	21.3	26.0	9	12	-1	1210	7.7	
FRANKLIN RESOURCES (3)	673.7**	30	126.7	25	18.8	19.5	24.8	24.9	26	30	25	12731	1.98	
FREDDIE MAC	3981.0	17	393.0	19	9.9	9.6	10.7	23.0	22	12	18	29944	1.98	
GREEN TREE FINANCIAL	285.8**	7	63.5	31	22.2	34.4	15.4	20.2	20	33	26	5344	1.97	
LEHMAN BROTHERS HOLDINGS (1)	4580.0	15	187.0	30	4.1	3.6	46.3	14.7	15	28	80	8728	5.00	
MARSH & MCLENNAN	1776.1	37	230.7	40	13.0	12.7	12.1	14.6	35	20	5	15317	2.60	
MERRILL LYNCH	9166.0	23	518.0	11	5.7	6.2	30.1	24.3	17	9	19	29026	4.98	
MORGAN STANLEY DEAN WITTER (1)	4035.0**	16	691.0	21	17.1	16.4	27.5	20.1	18	28	17	46499	4.34	
PAINEWEBBER GROUP	1805.1**	18	120.7	20	6.7	6.6	39.1	21.1	17	15	8	6400	2.77	
RAYMOND JAMES FINANCIAL (3)	267.5	22	24.7	-35	9.2	17.4	33.8	20.5	17	20	17	1541	1.86	
SCHWAB (CHARLES)	760.0	15	68.0	2	8.9	10.1	20.7	23.7	35	34	26	9158	0.99	
SLM HOLDING	840.8	-9	139.0	20	16.5	12.6	15.8	85.9	15	-9	11	7736	2.98	
TRAVELERS GROUP	10367.6	19	1093.4	34	10.5	9.4	21.0	16.7	23	23	20	72426	2.78	
(B) INSURANCE														
GROUP COMPOSITE	46914.5	12	5161.2	23	11.0	10.0	11.0	14.3	18	15	20	319260	4.51	
AFLAC	1757.0	3	160.4	78	9.1	5.3	12.0	19.1	13	23	27	8068	4.68	
ALLSTATE	6450.0	4	936.0	22	14.5	12.4	18.5	21.0	13	16	38	41278	7.58	
AMERICAN BANKERS INSURANCE GROUP	407.0	1	-42.7	NM	NM	6.5	6.0	5.7	NM	19	16	2510	0.25	
AMERICAN GENERAL	2462.0	16	244.0	16	9.9	9.9	7.1	7.6	29	9	6	16386	2.30	
AMERICAN INTERNATIONAL GROUP	7111.3**	8	886.5	14	12.5	11.8	10.0	14.3	30	14	16	91987	4.34	
AMERICAN NATIONAL INSURANCE	444.2	4	66.2	6	14.9	14.7	8.6	9.0	11	8	6	2833	9.5	
BERKLEY (W. R.)	384.6	17	25.7	-10	6.7	8.7	8.4	9.4	19	17	14	1406	2.4	
CIGNA	5095.0**	10	495.0	72	9.7	6.2	13.8	15.6	12	6	30	14896	17.5	
CINCINNATI FINANCIAL	512.6	6	84.2	14	16.4	15.3	5.3	6.1	24	22	10	7153	5.4	
CONSECO	1699.0	55	167.5	46	9.9	10.4	9.0	16.3	17	NA	12	9263	2.9	
EVEREST REINSURANCE HOLDINGS	302.9	5	39.8	15	13.1	12.0	11.8	11.8	13	20	32	2121	3.1	
HARTFORD FINANCIAL SERVICES GROUP	3728.0	20	264.0	29	7.1	6.5	15.7	22.9	9	21	NA	12963	11.6	
HARTFORD LIFE	1404.0	33	84.0	33	6.0	6.0	13.0	15.3	20	NA	NA	6807	2.4	
JEFFERSON-PILOT	697.3**	18	111.8	3	16.0	18.4	10.2	13.6	17	10	14	6284	3.4	
LIBERTY FINANCIAL	304.3	-2	31.5	-10	10.4	11.3	8.5	10.1	15	23	27	1765	2.6	
LINCOLN NATIONAL	1448.0**	21	122.0	47	8.4	6.9	2.1	1.2	NM	13	-32	9128	0.6	
OHIO CASUALTY	358.3	0	30.9	-1	8.6	8.7	9.0	9.3	13	11	6	1663	3.8	
OLD REPUBLIC INTERNATIONAL	506.5	10	81.5	25	16.1	14.1	13.1	14.5	21	15	11	4297	2.2	
ORION CAPITAL	424.8	10	42.2	43	9.9	7.7	13.6	16.9	12	19	18	1497	4.5	
PROGRESSIVE	1254.9**	30	120.1	57	9.6	7.9	16.8	20.8	23	29	16	9770	5.8	
SAFECO	1623.5**	58	111.6	0	6.9	10.8	7.1	7.9	16	17	5	7272	3.2	
ST. PAUL	1467.2	-6	154.0	-20	10.5	12.3	13.2	15.8	11	15	16	7054	7.9	
SUNAMERICA (3)†	355.5**	42	133.9	54	37.7	34.6	11.9	17.5	23	35	33	9768	2.1	
TORCHMARK	604.7**	7	92.9	20	15.4	13.6	13.0	18.3	19	10	6	6547	2.5	
TRANSAMERICA	1600.0	14	153.7	90	9.6	5.8	7.5	12.4	13	12	13	7269	9.1	
TRANSATLANTIC HOLDINGS	375.3	11	47.8	15	12.7	12.3	14.1	14.1	14	18	21	2607	5.5	
TRAVELERS PROPERTY CASUALTY	2594.2	7	347.1	27	13.4	11.2	14.4	16.8	13	NA	NA	16786	3.3	
UNITRIN	420.9	10	76.0	126	18.1	8.8	9.1	10.5	16	-7	6	2560	4.2	
UNUM	1121.5	6	93.5	-19	8.3	10.9	11.0	14.3	22	7	5	7321	2.4	
(C) SAVINGS & LOAN														
GROUP COMPOSITE	4668.0	12	601.6	33	12.9	10.8	NA	12.8	25	8	7	37993	2.7	
AHMANSON (H. F.)	984.5**	4	114.3	11	11.6	10.8	NA	16.3	21	-3	16	7335	3.6	
CHARTER ONE FINANCIAL	402.5**	12	63.5	22	15.8	14.4	NA	11.9	28	41	-1	4413	2.9	
DIME BANCORP	479.3**	36	57.2	74	11.9	9.3	NA	11.4	23	36	12	3442	1.3	
GOLDEN WEST FINANCIAL	781.2**	13	110.1	32	14.1	12.0	7.6	14.1	16	8	9	6139	6.9	
WASHINGTON MUTUAL	2020.5	12	256.5	43	12.7	10.0	NA	11.2	33	NA	-17	18665	2.2	

18 OFFICE EQUIPMENT & COMPUTERS

INDUSTRY COMPOSITE	99361.3	10	6209.4	1	6.3	6.8	14.9	19.0	40	13	27	917080	1.4
(A) BUSINESS MACHINES & SERVICES													
GROUP COMPOSITE	8176.9	27	390.7	14	4.8	5.3	13.3	18.7	25	7	10	36354	1.4
COMPUCOM SYSTEMS	437.8	1	3.8	-21	0.9	1.1	14.0	17.0	11	38	26	349	0.0
DELUXE	489.0	0	43.6	5	8.9	8.5	6.9	7.7	56	-5	-25	2663	0.0
DIEBOLD	295.7	12	26.9	13	9.1	9.0	18.5	18.8	23	11	24	2898	1.8
HON INDUSTRIES	418.3	48	22.5	33	5.4	6.0	17.2	23.2	21	17	18	1935	1.0
MICROAGE (2)	1179.0	31	-5.4	NM	NM	0.6	5.6	5.6	11	29	-2	295	1.0
MILLER (HERMAN) (7)	436.7	20	33.0	144	7.6	3.7	31.1	41.4	24	1	30	2718	1.0
PITNEY BOWES	1011.6	5	129.7	8	12.8	12.5	14.1	28.6	26	4	13	13512	1.0
REYNOLDS & REYNOLDS (3)	385.7	9	26.4	0	6.8	7.4	9.2	15.4	33	9	15	1840	0.0
STANDARD REGISTER	344.1	50	9.7	-35	2.8	6.5	8.7	12.4	16	8	12	1004	2.0
STEELCASE (10)	699.5	10	53.7	47	7.7	5.8	NA	14.7	25	NA	NA	5301	1.0
TECH DATA (11)	2113.2	61	26.1	47	1.2	1.4	15.2	12.7	NM	38	21	2280	1.0
WALLACE COMPUTER SERVICES (5)	366.4	63	20.8	-3	5.7	9.6	8.5	15.1	NM	8	17	1560	1.0

WE'VE HOUSEBROKEN TECHNOLOGY FOR YOU.



QUALCOMM has tamed unruly technology and, at the same time, taught it some manners. With our digital phones, you choose the ways you connect with others through voice, caller ID, paging, voice mail and data options. So you are in charge of when and how you'll be in touch. When you are, you'll be supported by QUALCOMM's advanced CDMA digital technology. It provides the highest quality voice transmission as well as enhanced security to guard against cloning and fraud. Wireless technology will make your life easier, now that we've domesticated it. Everything else in the arena is, frankly, quite beastly. For more information, contact us at www.qualcomm.com/tame or 1-800-349-4188 or 1-619-651-4029 (outside the USA).



QUALCOMM Incorporated. All rights reserved. QUALCOMM is a registered service mark and registered trademark of QUALCOMM Incorporated. The stylized Q logo is a trademark of QUALCOMM Incorporated. Options depend on services available from your carrier. CDMA voice quality rated superior by 1997 TRAC Study.

QUALCOMM
DIGITAL PHONES

CORPORATE SCOREBOARD

COMPANY	SALES		PROFITS		MARGINS		RETURN		5-YEAR GROWTH			MARKET VALUE SHARES OUTSTANDING 1.24 \$ MIL.	12 MONTH EARNINGS PER SHARE
	1ST QUARTER 1998 \$ MIL.	CHANGE FROM 1997 %	1ST QUARTER 1998 \$ MIL.	CHANGE FROM 1997 %	1ST QUARTER 1998 %	1ST QUARTER 1997 %	ON INVESTED CAPITAL %	ON COMMON EQUITY %	P-E 4.24	COMMON EQUITY %	EARNINGS PER SHARE %		
(B) COMPUTERS & PERIPHERALS													
GROUP COMPOSITE	61246.3	5	3213.9	-3	5.2	5.7	14.2	19.1	31	7	29	410585	1.8
APPLE COMPUTER (3)	1405.0	-12	55.0	NM	3.9	NM	NM	-9.3	NM	-9	NA	3716	-0.9
COMPAQ COMPUTER	5687.0	8	16.0	-96	0.3	7.9	16.9	15.7	31	35	43	44147	0.9
DATA GENERAL (3)	361.8	-7	-4.5	NM	NM	3.5	6.2	5.9	24	1	NA	773	0.6
DELL COMPUTER (11)	3737.0	55	285.0	52	7.6	7.8	72.1	73.0	57	27	55	49146	1.3
DIGITAL EQUIPMENT (6)	3191.0	-4	306.8	502	9.6	1.5	14.6	14.6	17	-7	NA	8294	3.2
EMC	828.4	34	146.1	32	17.6	17.9	19.7	22.7	39	68	55	21580	1.1
GATEWAY 2000	1727.9	22	75.9	12	4.4	4.8	11.5	11.5	78	47	4	9016	0.7
HEWLETT-PACKARD (2)	11816.0	15	929.0	2	7.9	8.9	17.4	19.1	NM	17	28	77147	2.9
INTERNATIONAL BUSINESS MACHINES	17618.0	2	1036.0	-13	5.9	6.9	18.5	30.2	20	-4	36	113630	5.9
IOMEGA	407.5	13	-18.6	NM	NM	6.4	14.9	16.7	33	56	87	2255	0.2
LEXMARK INTERNATIONAL GROUP	672.1	15	49.5	61	7.4	5.3	30.8	39.0	23	22	NA	3533	2.4
MICRON ELECTRONICS (4)	494.8	-3	24.8	11	5.0	5.5	14.7	15.4	24	79	NA	1471	0.6
QUANTUM (9)	1285.7	-18	2.7	-97	0.2	5.6	11.3	12.4	23	20	40	3352	1.0
SEAGATE TECHNOLOGY (6)	1675.0	-33	-128.5	NM	NM	10.3	NM	-16.5	NM	32	26	6738	-2.0
SILICON GRAPHICS (6)	708.3	22	-152.6	NM	NM	1.2	NM	-7.6	NM	35	-10	2523	-0.7
STORAGE TECHNOLOGY	484.9	11	40.6	2	8.4	9.0	20.2	20.2	21	4	66	4481	3.9
SUN MICROSYSTEMS (6)	2360.9	12	232.0	4	9.8	10.6	22.6	22.6	22	13	40	15354	1.8
UNISYS	1649.7	8	62.7	225	3.8	1.3	NM	NM	NM	-18	NA	5457	-5.1
WESTERN DIGITAL (6)	831.3	-24	-45.0	NM	NM	7.5	-3.8	-8.1	NM	44	39	1922	-0.5
XEROX	4304.0	7	301.0	11	7.0	6.7	13.0	28.9	33	4	22	36050	3.4
(C) COMPUTER SOFTWARE & SERVICES													
GROUP COMPOSITE	29938.1	17	2604.8	4	8.7	9.8	16.4	18.7	57	39	27	470142	1.0
AFFILIATED COMPUTER SERVICES (6)	304.9	31	16.9	32	5.5	5.5	9.6	9.7	34	101	26	1657	1.0
ASCEND COMMUNICATIONS	305.1	4	52.4	NM	17.2	NM	8.7	8.7	87	NA	NA	7950	0.4
AUTOMATIC DATA PROCESSING (6)	1309.3**	16	190.6	16	14.6	14.6	17.7	18.8	36	16	14	19785	1.8
BAY NETWORKS (6)	547.2	7	-144.2	NM	NM	0.1	-10.0	-10.7	NM	88	NA	5192	-0.7
CABLETRON SYSTEMS (10)	311.5	-18	-263.4	NM	NM	15.9	-12.7	-12.8	NM	40	NA	2146	-0.8
CADENCE DESIGN SYSTEMS	270.2	44	-25.5	NM	NM	19.8	15.9	15.9	68	6	19	7284	0.5
CERIDIAN	282.3	7	35.8	11	12.7	12.3	NM	6.6	NM	50	-24	4215	0.5
CISCO SYSTEMS (5)	2016.3	27	457.3	35	22.7	21.3	24.2	24.4	NM	78	56	73262	1.2
COMDISCO (3)	762.0	17	37.0	12	4.9	5.1	10.1	16.8	25	4	40	3292	1.6
COMPUSA (6)	1451.8	14	25.4	22	1.8	2.6	19.8	22.4	16	35	46	1648	1.1
ELECTRONIC DATA SYSTEMS	3942.0	10	184.2	-5	4.7	5.4	10.4	13.2	28	11	-2	20247	1.4
FIRST DATA	1232.3	-1	130.7	4	10.6	11.0	8.5	9.6	43	44	8	15027	0.7
FISERV	273.8	20	27.2	20	9.9	9.9	10.1	12.4	36	28	21	3461	1.7
GALILEO INTERNATIONAL	377.0	9	62.3	25	16.5	14.4	17.2	23.2	27	NA	NA	3851	1.3
HBO & CO.	342.8	30	64.9	69	18.9	14.6	19.0	16.9	76	97	43	12538	0.7
INACOM	1000.5	19	9.5	81	0.9	0.6	10.8	10.4	15	21	13	509	2.2
INGRAM MICRO	5150.1	41	56.5	40	1.1	1.1	10.7	20.2	30	NA	NA	5759	1.4
MICROSOFT (6)	3774.0	18	1337.0	28	35.4	32.5	28.6	30.4	59	30	33	223127	1.9
NCR	1309.0	-6	0.0	NM	0.0	NM	1.9	1.7	NM	NA	NA	3838	0.2
ORACLE (7)	1748.8	27	215.1	27	12.3	12.3	28.8	29.9	34	44	65	25980	0.7
PEOPLESOFT	277.7	81	33.8	89	12.2	11.6	26.3	26.3	94	54	69	10557	0.9
SABRE GROUP HOLDINGS	554.0	26	72.0	8	13.0	15.2	20.1	27.1	24	NA	NA	4839	1.5
SAFEGUARD SCIENTIFICS	441.9	-1	5.1	13	1.1	1.0	14.6	9.0	62	18	30	1292	0.6
3COM (7)	1250.2	-15	13.9	-92	1.1	12.2	5.3	5.5	83	52	102	12136	0.4
VANSTAR (8)	703.4	33	10.5	39	1.5	1.4	12.4	14.4	20	NA	NA	551	0.6
19 PAPER & FOREST PRODUCTS													
INDUSTRY COMPOSITE	24271.9	2	770.4	27	3.2	2.5	2.7	2.9	88	6	NA	104373	0.5
(A) FOREST PRODUCTS													
GROUP COMPOSITE	3741.3	2	-9.1	NM	NM	0.8	-3.5	-6.9	NM	4	NA	9274	-1.1
GEORGIA-PACIFIC GROUP	3193.0	2	16.0	NM	0.5	NM	NM	-4.5	NM	7	NA	6930	0.6
LOUISIANA-PACIFIC	548.3	-1	-25.1	NM	NM	7.6	NM	-13.5	NM	-2	NA	2343	-1.5
(B) PAPER													
GROUP COMPOSITE	20530.6	2	779.5	35	3.8	2.9	3.4	4.2	67	7	9	95100	0.7
BOISE CASCADE	1489.5	17	-1.2	NM	NM	NM	NM	-3.3	NM	7	NA	2140	-0.8
BOWATER	383.2	10	24.8	NM	6.5	NM	5.5	6.8	31	10	NA	2344	1.8
CHAMPION INTERNATIONAL	1477.0	8	19.0	NM	1.3	NM	NM	-15.6	NM	3	NA	5221	-5.3
CONSOLIDATED PAPERS	517.0	36	39.0	39	7.6	7.4	5.3	9.6	23	9	26	2966	2.8
FORT JAMES	1795.6	-1	117.6	21	6.6	5.3	6.2	35.2	NM	-24	NA	10243	0.4
INTERNATIONAL PAPER	4900.0	0	75.0	121	1.5	0.7	0.3	-1.3	NM	9	NA	16035	-0.3
KIMBERLY-CLARK	3048.6	-6	297.6	-18	9.8	11.3	14.4	19.8	35	16	0	28442	1.4
MEAD	1167.4	3	30.6	51	2.6	1.8	5.3	7.0	23	10	35	3604	1.9
POTLATCH	402.5	1	10.7	89	2.7	1.6	3.7	4.3	33	0	-5	1339	1.3
UNION CAMP	1144.6	8	26.7	178	2.3	0.9	4.7	4.8	43	3	19	4134	1.4
WESTVACO (2)	702.1	-5	32.5	-8	4.6	4.8	5.0	7.1	NM	6	18	3063	1.9
WEYERHAEUSER	2603.0	0	85.0	305	3.3	0.8	6.3	8.7	28	5	-1	11483	2.0
WILLAMETTE INDUSTRIES	900.1	5	22.1	66	2.5	1.6	4.0	4.1	50	13	6	4087	0.7

**"ARE WE HAVING A
COMMUNICATION PROBLEM?
OPEN MY E-MAIL AND
PRINT A THOUSAND
COLLATED SETS IN LONDON.**

**IS THAT TOO
MUCH TO ASK?"**



WHY PUT UP WITH DUMB MACHINES WHEN YOU CAN HAVE SMART ONES? <

Now a printer, a fax machine, a copier, a scanner will be able to access the network; open e-mail; archive digital files; access remote files; print, copy, scan, and fax; manage information in any form, in any content, regardless of location. In essence, create a new paradigm for the digital workplace.



Canon

CORPORATE SCOREBOARD

COMPANY	SALES		PROFITS		MARGINS		RETURN			5-YEAR GROWTH			MARKET VALUE SHARES OUTSTANDING 4-24 \$ MIL	MO EARN \$
	1ST QUARTER 1998 \$ MIL	CHANGE FROM 1997 %	1ST QUARTER 1998 \$ MIL	CHANGE FROM 1997 %	1ST QUARTER 1998 %	1ST QUARTER 1997 %	ON INVESTED CAPITAL %	ON COMMON EQUITY %	P/E 4-24	COMMON EQUITY %	EARNINGS PER SHARE %			
20 PUBLISHING & BROADCASTING														
INDUSTRY COMPOSITE	14496.7	13	786.5	61	5.4	3.8	2.9	3.4	NM	13	17	166843	0	
(A) BROADCASTING														
GROUP COMPOSITE	2472.1	54	52.9	NM	2.1	NM	0.3	0.1	NM	45	NA	26908	0	
CBS	1949.0	47	19.0	NM	1.0	NM	-0.2	-0.4	NM	39	NA	24181	0	
USA NETWORKS	523.1	87	33.9	800	6.5	1.3	2.8	3.0	98	444	NA	2727	0	
(B) PUBLISHING														
GROUP COMPOSITE	12024.6	7	733.6	27	6.1	5.1	3.4	4.4	NM	8	17	139935	0	
BELO (A. H.)	329.5	42	13.6	-23	4.1	7.6	4.0	5.9	42	26	12	3274	-1	
DOW JONES	621.5	3	34.7	37	5.6	4.2	NM	NM	NM	-8	NA	4803	-8	
GANNETT	1199.9	11	342.9	154	28.6	12.5	17.4	26.5	21	17	16	19570	3	
KNIGHT-RIDDER	743.9	24	101.4	42	13.6	29.2	11.7	20.8	18	3	27	4641	3	
McGRAW-HILL	703.4	8	20.1	34	2.9	2.3	15.3	20.6	26	12	51	7656	2	
NEW YORK TIMES	722.6	4	64.6	25	8.9	7.5	12.3	15.9	25	8	90	6770	2	
PRIMEDIA	345.0	-2	-9.7	NM	NM	NM	NM	NM	NM	17	NA	1883	-1	
READER'S DIGEST ASSOCIATION (6)	635.5	-7	14.6	-61	2.3	5.5	-3.6	-3.7	NM	-18	-15	2748	-0	
SCRIPPS (E. W.)	346.8	19	25.1	-16	7.2	10.3	10.0	14.6	31	6	3	4631	-1	
TIME WARNER	3137.0	3	-62.0	NM	NM	1.7	2.0	-1.4	NM	25	NA	43280	-0	
TIMES MIRROR	803.9	4	45.3	0	5.6	5.8	14.5	147.7	25	-34	30	5170	2	
TRIBUNE	672.7	13	70.1	9	10.4	10.9	12.2	22.3	23	13	24	8107	2	
U S WEST MEDIA GROUP	1279.0	6	-135.0	NM	NM	NM	NM	-7.9	NM	NA	NA	22147	-0	
WASHINGTON POST	484.0	7	207.9	336	43.0	10.5	36.2	37.2	12	4	18	5256	42	
21 SERVICE INDUSTRIES														
INDUSTRY COMPOSITE	46717.8	13	1400.1	10	3.0	3.1	7.8	12.0	33	20	11	144772	1	
(A) CONSTRUCTION & ENGINEERING														
GROUP COMPOSITE	6400.2	6	222.3	35	3.5	2.7	6.6	9.7	31	26	-2	17381	1	
FLUOR (2)	3399.0	-1	54.8	-12	1.6	1.8	7.6	8.0	NM	15	5	3710	-1	
FOSTER WHEELER	1028.0	7	17.4	-14	1.7	2.1	NM	-2.1	NM	13	NA	1138	-0	
JACOBS ENGINEERING GROUP (3)	524.8	20	13.3	17	2.5	2.6	13.0	15.2	17	18	12	852	1	
MORRISON KNUDSEN (1)	385.0	-1	8.2	17	2.1	1.8	9.3	9.7	20	46	2	658	0	
STONE & WEBSTER	294.0	-16	7.6	37	2.6	1.6	8.5	10.1	17	-5	NA	583	2	
USA WASTE SERVICES	769.4	67	121.0	109	15.7	12.6	7.5	12.8	32	149	-1	10440	1	
(B) INDUSTRIAL DISTRIBUTION														
GROUP COMPOSITE	23484.9	10	626.3	6	2.7	2.8	5.0	8.0	35	18	6	48543	1	
ALLEGIANCE	1103.4	5	28.2	34	2.6	2.0	7.3	10.5	27	NA	NA	2560	1	
APPLIED INDUSTRIAL TECHNOLOGIES (6)	393.9	33	9.1	35	2.3	2.3	9.4	10.6	17	11	28	548	1	
ARROW ELECTRONICS	2025.8	9	41.9	-17	2.1	2.7	9.1	11.1	17	35	15	2581	-1	
AVNET (6)	1512.1	10	40.7	-14	2.7	3.4	9.1	12.2	14	14	27	2450	4	
BOISE CASCADE OFFICE PRODUCTS	759.8	27	17.6	18	2.3	2.5	8.5	11.8	22	28	NA	1332	0	
BRIGHTPOINT	343.3	72	8.8	63	2.6	2.7	8.8	12.9	33	246	34	988	0	
CELLSTAR (1)	406.7	58	14.2	138	3.5	2.3	20.9	34.8	16	89	46	985	2	
ENRON	5682.0	6	214.0	-4	3.8	4.2	NM	1.5	NM	17	-15	15115	0	
GENUINE PARTS	1533.1	5	80.0	4	5.2	5.3	15.7	18.6	19	8	9	6409	-1	
GRAINGER (W. W.)	1057.1	7	57.2	5	5.4	5.5	16.7	18.1	23	9	13	5182	2	
HUGHES SUPPLY (11)	460.5	22	8.9	16	1.9	2.0	7.6	10.8	NM	27	41	723	2	
MARSHALL INDUSTRIES (7)	368.1	21	8.0	-18	2.2	3.2	6.2	9.7	15	15	19	551	2	
METALS USA	270.5	59	6.7	56	2.5	2.5	NA	NA	55	NA	NA	590	0	
NATIONAL-OILWELL	301.9	46	21.1	118	7.0	4.7	20.5	23.9	31	NA	NA	1927	-1	
NGC	3315.6	1	12.3	167	0.4	0.1	NM	-8.5	NM	42	NA	2135	-0	
RELANCE STEEL & ALUMINUM	315.5	56	11.8	70	3.7	3.4	8.5	12.0	17	32	28	750	2	
RYERSON TULL	734.8	11	16.0	-4	2.2	2.5	12.0	14.5	13	NA	NA	825	-1	
UNISOURCE WORLDWIDE (3)	1867.9	9	6.7	-37	0.4	0.6	NM	-7.7	NM	NA	NA	955	-0	
UNITED STATIONERS	712.5	12	15.1	51	2.1	1.6	5.4	5.5	97	-15	17	1014	0	
VWR SCIENTIFIC PRODUCTS	320.5	10	7.9	123	2.5	1.2	NA	8.5	28	59	2	923	1	
(C) PRINTING & ADVERTISING														
GROUP COMPOSITE	4020.9	17	144.2	24	3.6	3.4	11.4	16.4	32	10	1	24582	1	
BANTA	330.8	20	11.0	10	3.3	3.6	9.1	10.7	21	11	5	918	1	
BIG FLOWER HOLDINGS	383.9	29	1.1	-35	0.3	0.6	NM	-47.8	NM	21	NA	544	-1	
DONNELLEY (R. R.) & SONS	1161.4	5	44.2	26	3.8	3.2	9.5	13.5	30	-3	2	6340	1	
INTERPUBLIC GROUP	733.5**	23	27.6	25	3.8	3.7	18.5	22.1	32	16	15	7988	1	
OMNICOM GROUP	861.0	24	50.9	27	5.9	5.8	23.2	26.9	32	23	19	7498	1	
WORLD COLOR PRESS	550.4	20	9.4	36	1.7	1.5	7.0	10.0	21	28	NA	1294	1	
(D) OTHER SERVICES														
GROUP COMPOSITE	12811.7	21	407.3	1	3.2	3.9	12.0	17.9	33	26	33	54266	1	
ABM INDUSTRIES (2)	358.7**	23	5.7	19	1.6	1.7	11.8	13.5	NM	14	12	621	1	
ACCUSTAFF	710.1	33	25.1	12	3.5	4.2	9.2	13.0	38	308	116	3662	0	
ACNIELSEN	325.8	0	1.8	NM	0.6	NM	8.8	9.3	39	NA	NA	1631	0	
ADMINISTAFF	362.4	38	-0.7	NM	NM	NM	10.8	8.9	79	NA	NA	525	0	
BORG-WARNER SECURITY	377.4	-1	0.7	-83	0.2	1.0	9.7	23.7	32	-26	-23	494	0	
CASEY'S GENERAL STORES (8)	278.1*	2	7.4	33	2.6	2.0	9.4	12.5	NM	20	16	818	0	
CDI	378.8	5	10.7	0	2.8	3.0	20.8	20.7	17	14	69	781	2	

**Cisco is making
billions running its business
on Oracle Financial and
Manufacturing Applications.**

**So, what are you
running on these days?**



©1996 Oracle Corporation. All rights reserved. Oracle and Enabling the Information Age are registered trademarks of Oracle Corporation.
All other company and product names are trademarks of their respective owners.

Cisco Systems is a global, networked business. As the worldwide leader in networking for the Internet, Cisco has rocketed to multi-billion dollar size in just a few years. How does a fast-growing company effectively manage its business? With Oracle Financial and Manufacturing Applications. Cisco runs its worldwide business operations on Oracle Financial, Manufacturing and Order-Entry Applications. What's more, all Cisco operations are managed off of Oracle databases. Even customers and business partners gain direct access to Oracle databases to improve business efficiency. Oracle Applications have helped Cisco cut costs, increase sales and add accuracy, speed and flexibility to its business operations. Running its business on Oracle, Cisco has become the most highly networked business in the world. Give your business what it needs to run more competitively. Call 1-800-633-1062, ext. 12720, for a free CD and learn how other companies move ahead with Oracle Applications, or visit www.oracle.com/info4



ORACLE®
Enabling the Information Age®

CORPORATE SCOREBOARD

COMPANY	SALES		PROFITS		RETURN				5-YEAR GROWTH				MARKET VALUE SHARES OUTSTANDING 4-24 \$ MIL	MCH EARN 1998 \$ MIL
	1ST QUARTER 1998 \$ MIL	CHANGE FROM 1997 %	1ST QUARTER 1998 \$ MIL	CHANGE FROM 1997 %	MARGINS		ON INVESTED CAPITAL %	ON COMMON EQUITY %	P-E 4-24	COMMON EQUITY %	EARNINGS PER SHARE %			
					1ST QUARTER 1998 %	1ST QUARTER 1997 %								
COGNIZANT [†]	337.0	7	60.1	23	17.8	15.5	31.6	39.9	27	NA	NA	8297	15	
HANDLEMAN (8)	308.2	-7	7.0	7	2.3	2.0	3.1	3.1	NM	1	33	320	8	
INTERIM SERVICES	416.2	31	10.6	24	2.5	2.7	6.5	9.1	28	41	15	1239	14	
KELLY SERVICES	959.4	9	15.1	6	1.6	1.6	14.6	14.6	17	9	16	1379	23	
MANPOWER	1872.9	23	21.7	-18	1.2	1.7	19.7	25.7	21	44	21	3294	15	
NORRELL (2)	334.3	19	8.0	12	2.4	2.6	10.7	11.6	24	43	59	605	5	
NOVACARE EMPLOYEE SERVICES (6)	338.4	124	1.5	572	0.4	0.1	7.7	NA	41	NA	NA	242	5	
OLSTEN	1049.9**	10	12.8	-33	1.2	2.0	8.3	10.3	13	36	10	1164	15	
PAYCHEX (7)	271.4	39	26.4	37	9.7	9.9	30.5	30.5	62	30	38	5917	15	
PITTSBURGH BRINK'S GROUP	310.3	23	17.0	11	5.5	6.1	16.9	19.8	19	NA	17	1445	14	
ROBERT HALF INTERNATIONAL	401.3	42	29.1	46	7.2	7.0	23.4	24.6	47	35	72	4697	15	
SERVICE CORP. INTERNATIONAL	682.7	7	108.8	-17	15.9	20.5	7.3	12.9	30	34	22	10417	15	
SERVICEMASTER	981.8	20	29.3	1	3.0	3.5	NM	56.8	33	NA	16	5202	15	
UNITED AUTO GROUP	712.4	83	2.3	-31	0.3	0.9	NA	-3.4	NM	NA	NA	326	-0	
VINCAM GROUP	284.2	29	1.8	53	0.6	0.5	NA	9.0	NM	NA	NA	362	0	
VOLT INFORMATION SCIENCES (2)	361.5	25	2.6	-47	0.7	1.7	16.0	20.7	NM	18	97	471	23	
WACKENHUT	398.6	65	2.7	37	0.7	0.8	4.0	0.6	NM	30	-24	357	15	

22 TELECOMMUNICATIONS

INDUSTRY COMPOSITE	69329.3	9	5431.1	-5	7.8	9.0	9.4	14.4	37	10	6	735504	1
(A) EQUIPMENT & SERVICES													
GROUP COMPOSITE	34586.1	11	1499.9	-18	4.3	5.9	5.5	7.5	65	21	3	373950	0
ADC TELECOMMUNICATIONS (2)	286.4	12	25.4	144	8.9	4.0	15.9	15.9	NM	36	33	3957	0
AIRTOUCH COMMUNICATIONS [†]	958.0	15	167.0	117	17.4	9.2	8.5	9.9	57	31	62	27329	0
AT&T	12631.0	1	1316.0	21	10.4	8.7	14.1	20.6	22	6	-9	101210	2
CENTURY TELEPHONE ENTERPRISES [†]	371.7	87	57.7	74	15.5	16.7	8.1	21.7	14	27	24	3946	2
EXCEL COMMUNICATIONS	494.8	49	27.9	-21	5.6	10.6	6.6	10.7	35	NA	NA	3058	0
LCI INTERNATIONAL	448.0	22	29.0	32	6.5	6.0	NA	6.3	NM	73	158	3714	0
LUCENT TECHNOLOGIES (3)	6157.0	20	23.0	-65	0.4	1.3	7.8	9.2	NM	NA	NA	95290	0
MCI COMMUNICATIONS	5288.0	8	101.0	-66	1.9	6.0	NM	-0.4	NM	29	-19	36145	0
NEXTEL COMMUNICATIONS	327.1	196	-386.9	NM	NM	NM	NM	NM	46	NA	NA	7927	0
SCIENTIFIC-ATLANTA (6)	288.7	-4	17.1	4	5.9	5.5	11.8	11.7	27	12	9	1834	0
SPRINT	3910.9	9	216.5	-25	5.5	8.1	7.4	9.6	35	26	8	29812	0
TELEPHONE & DATA SYSTEMS [†]	392.1	35	74.2	671	18.9	3.3	2.4	2.7	56	18	NA	2942	0
TELLABS	327.5	33	68.2	8	20.8	25.5	28.5	28.8	50	41	66	13168	0
360 COMMUNICATIONS [†]	354.8	16	44.1	367	12.4	3.1	9.7	20.9	32	649	NA	3782	0
WORLDCOM	2350.0	39	-280.4	NM	NM	1.5	1.0	0.2	NM	107	NA	39835	0
(B) TELEPHONE COMPANIES													
GROUP COMPOSITE	34743.3	8	3931.3	1	11.3	12.1	12.8	22.6	25	1	9	361555	2
ALLTEL	847.0	8	123.6	21	14.6	13.0	13.7	24.0	16	11	14	8047	2
AMERITECH	4133.0	7	492.0	-8	11.9	13.9	18.3	26.4	21	3	12	47626	2
BELL ATLANTIC	7651.1	3	909.6	30	11.9	9.4	11.6	20.8	27	7	2	72268	2
BELLSOUTH	5426.0	12	892.0	29	16.4	14.3	15.7	22.1	18	1	19	63052	2
CINCINNATI BELL	508.1	18	22.8	-60	4.5	13.3	21.4	26.7	30	2	41	4633	2
FRONTIER	632.0	9	33.9	NM	5.4	NM	7.2	10.6	47	11	-16	4820	2
GTE	5885.0	11	142.0	-79	2.4	12.6	11.6	28.3	25	-6	16	56454	2
SBC COMMUNICATIONS	6424.0	8	912.0	19	14.2	12.8	8.5	15.5	47	-1	-1	74869	2
SOUTHERN NEW ENGLAND TELECOMMS.	527.1**	9	56.4	22	10.7	9.6	14.9	34.8	22	-17	3	4596	2
U S WEST COMMUNICATIONS GROUP	2710.0	5	347.0	2	12.8	13.1	14.1	27.8	21	NA	5	25190	2

23 TRANSPORTATION

INDUSTRY COMPOSITE	46821.7	8	1698.1	3	3.6	3.8	8.8	16.2	17	16	24	154981	22
(A) AIRLINES													
GROUP COMPOSITE	20368.4	2	904.5	14	4.4	4.0	16.3	31.9	11	NA	NA	51211	67
ALASKA AIR GROUP	416.4	9	13.1	NM	3.1	NM	11.6	16.5	14	19	48	1074	28
AMERICA WEST HOLDINGS	483.2**	2	25.1	80	5.2	2.9	11.0	12.4	16	NA	NA	1351	38
AMR	4737.0	7	290.0	91	6.1	3.4	12.5	18.1	12	15	54	13169	137
CONTINENTAL AIRLINES	1854.0	9	81.0	9	4.4	4.4	16.1	43.1	12	NA	NA	3519	137
DELTA AIR LINES (6)	3389.0	1	195.0	3	5.8	5.5	19.9	27.3	10	10	NA	8747	137
NORTHWEST AIRLINES	2428.5	2	71.0	10	2.9	2.7	15.4	NM	10	NA	29	5310	137
SOUTHWEST AIRLINES	942.7	6	70.0	38	7.4	5.7	12.2	16.8	19	18	22	6166	137
UAL	4055.0	-2	61.0	-42	1.5	2.5	17.8	35.6	11	22	255	5137	140
US AIRWAYS GROUP	2062.6	-2	98.3	-36	4.8	7.3	NM	127.0	8	NA	NA	6738	137
(B) RAILROADS													
GROUP COMPOSITE	8689.7	0	472.2	-19	5.4	6.7	5.6	9.8	22	16	11	58786	140
BURLINGTON NORTHERN SANTA FE	2162.0	7	265.0	77	12.3	7.4	7.0	14.1	16	45	11	15660	38
CSX	2580.0	1	91.0	-40	3.5	5.9	7.4	12.7	16	15	80	11708	34
KANSAS CITY SOUTHERN INDUSTRIES	295.7**	24	46.2	62	15.6	12.0	2.7	0.5	NM	8	NA	4837	34
NORFOLK SOUTHERN	1066.0**	2	132.0	6	12.4	12.0	6.7	12.5	18	4	9	12718	38
UNION PACIFIC	2586.0	8	-62.0	NM	NM	4.6	2.9	2.9	58	14	-11	13863	96

Her firm is helping design
the cities of tomorrow.

We're helping her plan
her financial future today.



Designing tomorrow's world takes vision, careful planning, and the right execution. Designing a financial future requires no less. That's why the products and services of American General make so much sense. As one of the nation's largest providers of retirement services, life insurance, and consumer loans, we're uniquely qualified to help build our customers' financial success. We offer personalized

service and knowledgeable financial counseling to 12 million people at every stage of their lives. American General. Helping our customers design - and achieve - a successful financial future.

**AMERICAN
GENERAL**

Retirement Services • Life Insurance • Consumer Finance

Helping 12 million Americans do better financially.

American General Life • American General Life and Accident • Franklin Life • United States Life
All American Life • Old Line Life • USLIFE Credit Life • American General Life of New York
American General Finance • VALIC • American General Annuity • American General Securities Incorporated

Visit www.agc.com or call 1 (800) AGC - 1111

CORPORATE SCOREBOARD

COMPANY	SALES		PROFITS		MARGINS		RETURN		5-YEAR GROWTH			MARKET VALUE \$ MIL.	M. CAP. \$ MIL.
	1998 QUARTER \$ MIL.	CHANGE 1997-98 %	1ST QUARTER 1998 \$ MIL.	CHANGE 1997-98 %	1ST QUARTER 1998 %	1ST QUARTER 1997 %	ON INVESTED CAPITAL %	ON COMMON EQUITY %	PER SHARE \$	PER SHARE %	PER SHARE %		
(C) TRANSPORTATION SERVICES													
GROUP COMPOSITE	13944.6	26	263.3	24	1.9	1.9	6.7	10.7	27	18	3	39550	1.
AIRBORNE FREIGHT	750.2	14	32.4	125	4.3	2.2	15.4	20.6	15	16	65	1074	2.
AVIS RENT A CAR	511.4	10	1.4	16	1.4	0.9	6.1	7.0	27	NA	NA	823	0.
BUDGET GROUP	456.0	10	3.4	NM	NM	NM	8.6	7.6	30	151	151	687	1.
CNF TRANSPORTATION	1089.9	16	18.9	14	1.7	2.3	10.6	16.1	18	3	27	1825	2.
FDX	3986.3	13	12.8	-79	0.3	1.7	9.7	12.2	19	14	30	10437	3.
FRITZ (7)	307.2	14	2.6	NM	0.9	NM	NA	5.6	38	93	-44	504	0.
GATX	408.9	4	37.4	30	9.1	7.9	NM	-7.0	NM	5	NA	1962	-2.
HERTZ	898.8	3	36.4	80	3.9	2.2	10.9	19.1	23	21	NA	4899	2.
PITTSBURGH BURLINGTON GROUP	402.3**	8	-3.0	NM	NM	1.4	7.7	7.6	14	NA	-6	357	1.
REPUBLIC INDUSTRIES	3419.9	87	77.1	101	2.3	1.9	4.4	7.0	50	122	33	12116	0.
ROBINSON (C. H.) WORLDWIDE	468.2	16	8.4	13	1.8	1.8	9.0	9.0	77	NA	NA	949	0.
RYDER SYSTEM	1245.6	5	37.3	15	3.0	2.7	6.9	15.5	17	-2	8	2713	2.
(D) TRUCKING & SHIPPING													
GROUP COMPOSITE	3819.0	5	58.1	15	1.5	1.4	7.9	11.5	18	5	-4	5434	1.
ALEXANDER & BALDWIN	387.4**	3	13.8	35	4.7	7.2	6.7	10.3	17	5	1	1366	1.
ARKANSAS BEST	387.9	2	3.0	524	0.9	0.1	6.1	13.8	10	0	-2	108	1.
CONSOLIDATED FREIGHTWAYS	440.6	1	1.0	106	1.3	0.6	9.8	9.6	18	NA	NA	400	1.
HUNT (J. B.) TRANSPORT SERVICES	413.5	13	9.3	NM	2.3	0.2	4.4	6.0	38	1	-21	1146	0.
LANDSTAR SYSTEM	320.2	5	4.5	49	1.4	1.0	15.2	17.3	16	34	19	396	2.
ROADWAY EXPRESS	621.7	5	6.6	20	1.1	0.9	15.2	15.2	14	0	NA	537	1.
USFREIGHTWAYS	442.3	14	13.7	41	3.1	2.7	NA	16.0	16	1	17	935	2.
YELLOW	796.5	1	-0.6	NM	NM	0.8	8.3	10.2	12	-3	NA	524	1.
24 UTILITIES & POWER													
INDUSTRY COMPOSITE	74565.3	10	5329.3	-6	7.1	8.4	5.8	10.1	18	5	3	331899	1.
(A) ELECTRIC, WATER & COGENERATION													
GROUP COMPOSITE	59085.7	14	4242.2	-3	7.2	8.4	5.7	10.0	18	5	3	280388	1.
AES	349.1	11	65.0	63	11.3	15.3	6.5	14.4	46	47	21	3844	1.
ALLEGHENY ENERGY	441.6	8	80.6	1	12.5	13.0	7.1	12.5	13	4	3	3688	2.
AMEREN	700.8	-8	43.1	-11	6.1	6.3	6.8	12.6	14	0	0	5471	2.
AMERICAN ELECTRIC POWER	2170.6	45	153.4	-16	7.1	12.2	6.6	12.8	15	2	8	8942	3.
BALTIMORE GAS & ELECTRIC	866.1	-2	80.2	11	9.3	8.1	NA	9.2	17	3	1	4615	1.
BOSTON EDISON	394.6	-7	22.9	8	5.8	5.0	7.5	12.3	14	6	4	1932	2.
CALENERGY	644.3**	14	27.3	-1	4.2	4.9	4.0	3.6	42	58	2	2668	0.
CAROLINA POWER & LIGHT	752.3	5	86.6	5	11.5	11.5	7.0	13.7	16	2	4	6347	2.
CENTRAL & SOUTH WEST	1257.0	1	62.0	11	4.9	2.3	6.1	10.2	15	5	-3	5464	1.
CILCORP	382.9	99	8.5	-19	2.2	5.5	2.3	2.2	82	1	-18	614	0.
CINERGY	1331.8	29	108.5	-8	8.1	11.4	8.3	14.0	16	11	5	5482	2.
CMS ENERGY	1374.0	16	88.0	-3	6.4	7.0	7.8	13.5	17	22	8	4769	2.
COMMONWEALTH ENERGY SYSTEM	276.6	-13	25.6	-3	9.2	8.4	NA	11.4	15	1	1	755	2.
CONSOLIDATED EDISON	1853.0	-3	176.5	6	9.5	8.7	7.3	11.9	15	4	3	10465	2.
DOMINION RESOURCES	2151.7	13	148.6	-17	6.9	9.4	5.2	7.3	20	4	-5	7371	1.
DPL	377.9	-3	70.4	1	18.6	17.0	8.6	14.4	15	5	6	1884	1.
DQE	296.0	-2	45.1	0	15.2	14.9	7.1	13.3	13	5	8	2602	2.
DTE ENERGY	945.0	1	107.3	45	11.4	8.5	6.6	12.7	12	2	7	5595	3.
DUKE ENERGY	4114.8	9	320.1	3	7.8	8.2	6.8	12.1	22	10	4	20509	2.
EDISON INTERNATIONAL	1909.6	-5	154.4	1	5.1	7.8	6.1	12.7	16	0	2	10709	2.
ENOVA	616.9	21	50.0	-1	8.1	9.9	7.5	16.0	12	2	6	2969	2.
ENTERGY	2313.1	13	60.1	-53	2.6	6.2	3.2	2.8	35	7	-14	6638	0.
FIRSTENERGY	1181.0	95	130.5	63	11.1	13.2	3.8	8.6	15	5	70	6906	2.
FLORIDA PROGRESS	58.1	1	50.9	20	6.5	5.7	2.9	3.5	62	NA	-16	3883	0.
FPL GROUP	1338.0	1	111.9	5	8.4	7.4	8.6	12.9	17	5	8	10963	3.
GPU	1043.1	1	136.8	-14	13.1	15.1	5.5	10.1	16	6	5	4879	2.
HAWAIIAN ELECTRIC INDUSTRIES	375.6	5	23.8	12	6.3	5.9	5.8	10.9	14	8	2	1256	2.
HOUSTON INDUSTRIES	2636.7	200	-31.2	NM	NM	7.0	4.5	6.8	23	8	4	8323	1.
ILLINOVA	575.4	1	29.0	4	5.0	8.7	4.2	6.1	25	1	6	2012	1.
INTERSTATE ENERGY	556.3	-16	33.5	-46	6.0	3.4	7.4	11.9	11	6	0	1005	1.
LG&E ENERGY	1208.2	-7	18.9	-16	1.6	1.7	7.0	11.3	18	4	7	1709	1.
MONTANA POWER	298.5	1	35.9	-22	12.0	16.4	7.3	11.3	17	3	0	1984	1.
NEW CENTURY ENERGIES	147.1	1	39.1	1	9.5	9.1	7.7	12.2	13	4	3	5205	2.
NEW ENGLAND ELECTRIC SYSTEM	619.6	-3	53.7	-16	8.7	10.0	7.2	12.3	13	3	3	2735	2.
NEW YORK STATE ELECTRIC & GAS	627.2	7	37.4	-4	12.5	13.9	NA	9.6	16	4	2	2700	1.
NIPSCO INDUSTRIES	779.3	18	62.9	14	8.1	11.1	NA	14.3	18	3	9	3276	2.
NORTHERN STATES POWER	701.4	-6	57.1	-13	8.1	8.9	6.3	9.2	18	7	7	4151	1.
OGE ENERGY	305.9	5	-0.3	NM	NM	NM	7.1	13.2	16	1	1	2135	2.
PECO ENERGY	1173.0	1	114.0	1	9.7	9.7	5.6	11.8	15	-5	4	4979	2.
PG&E	4553.0	29	147.3	-19	3.4	5.4	4.5	7.7	19	1	-7	13392	2.
POTOMAC ELECTRIC POWER	380.4	-2	7.5	-67	2.0	5.9	4.4	8.0	19	0	1	2792	1.
PP&L RESOURCES	880.2	11	107.5	-13	12.2	15.6	5.3	10.0	13	4	-1	3751	1.
PUBLIC SERVICE CO. OF NEW MEXICO	329.6	10	21.2	-15	6.4	8.3	6.6	9.1	13	7	3	961	1.
PUBLIC SERVICE ENTERPRISE GROUP	1901.0	1	142.1	35	10.2	8.3	6.6	11.7	13	1	1	7901	2.

Vantive Announces The Customer Bill Of Rights

Vantive has emerged
as the number-one
supplier of sales,

marketing, call center and field service — we

call these *Front Office* — software systems. Sure, we

offer spectacular technology. But we feel a larger reason

for our customer acceptance has been the application of

plain-and-simple grade-school ethics. It starts with our

talk-to-any-customer open-book reference policy, and

continues with the elimination of software licensing “gag

orders” that prevent you from telling the world about your

experience. In fact, we have formalized a complete

Customer Bill of Rights. You can

review it on our Website. If you

feel as we do, that creating a

customer for life is your most

important business goal, then isn't it

time you found out if your

application software suppliers share

that value?

Log onto our Website for an

up-to-date list of companies that

have agreed to *The Vantive*

Challenge.™ Is one of your

important corporate partners

conspicuously ... absent? If they are, isn't it in your best

interests to ask them why?

Vantive.
Because Customers
Are Your Most Valuable Asset™

Call 1-800-VANTIVE

1-800-820-8455

(+08-982-5700 from outside the U.S.)

www.vantive.com/ethics

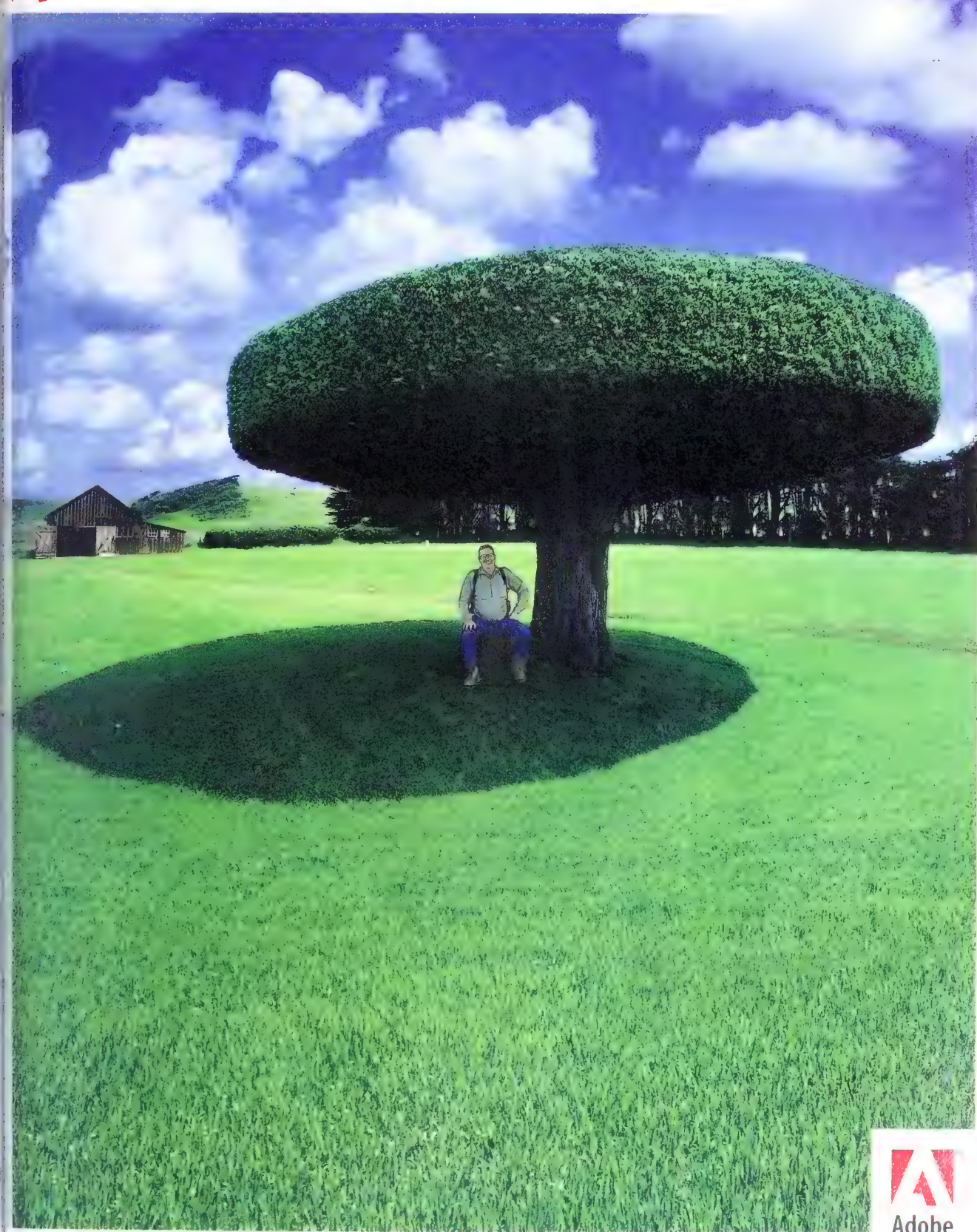
*I have personally challenged the
executives of every major software
company to live by a new standard.
Now, it's up to customers to demand
open-book references and user-
centric program license agreements,
especially from
vendors of
customer-
facing
apps."*



John Luongo, President & CEO
The Vantive Corporation

100

Wouldn't it be nice if your work was *impossible* to ignore?



anding out can be hard work. Making it happen in business is even harder. Unless you have Adobe® software. Suddenly, ordinary communication will have more impact. Capture attention. Get results. All with the help of Adobe Photoshop, Illustrator, PageMaker, and iScript®. See for yourself, today, with our free product sampler CD. Call 1-888-724-4503 ext. 42801. Or visit www.adobe.com-unforgettable.

Suddenly, you're unforgettable.

ALPHABETICAL LIST OF COMPANIES

The number following each company name identifies the Scoreboard category under which it is listed

LMC 18b
Exxon 11a
Enbridge 24a
Enron 21b
Entergy 24a
Equifax 17a
Essex Intl 16c
Estee Lauder 6d
Everest Reinsurance 17b
EVI 11b
Excel Communications 22a
Express Scripts 12c
Exxon 11a

F
Fabri-Centers of America 8
Family Dollar Stores 8
Fannie Mae 17a
FDX 23c
Federal-Mogul 2b
Federated Dept. Stores 8
Ferro 4
Fifth Third Bancorp 3b
Fina 11a
Fingerhut 8
Finlay Enterprises 8
First American 3c
First American Intl. 17a
First Chicago NBD 3b
First Data 18c
First Maryland Bancorp 3a
First Security 3d
First Tennessee Natl. 3c
First Union 3c
Firststar 3b
FirstEnergy 24a
Fiserv 18c
Fleet Financial Group 3a
Fleetwood Entls 13b
Fleming 10a
Florida Progress 24a
Fluor 21a
FMC 15c
Food Lion 10c
Footstar 8
Ford Motor 2a
Fort James 19b
Fortune Brands 15a
Foster Wheeler 21a
FPL Group 24a
Franklin Resources 17a
Freddie Mac 17a
Freight-McMoran C&G 16c
Fritz 23c
Frontier 22b
Fuller (H.B.) 4

G
Galileo Intl. 18c
Gannett 20b
Gen 8
Gateway 2000 18b
GATX 23c
GenCorp 2b
General Cable 16c
General Dynamics 1
General Electric 5
General Mills 10b
General Motors 2a
General Nutrition 10c
General Signal 9a
Genuine Parts 21b
Gen 4
Georgia-Pacific Group 19a
Gillette 6d
Global Marine 11b
GM Hughes Electronics 9b
Golden West 17c
Goodrich (B.F.) 1
Goodyear Tire & Rubber 2c
Goody's Family Clothing 8
GPU 24a
Grainger (W.W.) 21b
Great A&P 10b
Great Lakes Chemical 4
Green Tree Financial 17a
GTE 22b
Gundant 12d
Gulfstream Aerospace 1

H
Hannaford Brothers 10c
Harcourt General 5
Harley-Davidson 14d
Harman International 6b
Harsco 16c
Hartford Financial Services 17b
Hartford Life 17b
Hasbro 14d
Hawaiian Electric 24a
Hayes Lemmerz Intl. 2b
HBO & Co. 18c
Health Management Assocs. 12c
HealthSouth 12c
Heilig-Meyers 6b
Heinz (H.J.) 10b
Hercules 4
Hershey Foods 10b
Hertz 23c
Hewlett-Packard 18b
Hillman 15a
Hills Stores 8
Hilton Hotels 14c
Home Depot 8
HomeBase 8
HON Industries 18a
Honeywell 9c
Hormel Foods 10b
Horton (D.R.) 13b
Host Marriott Services 14a
Houston Industries 24a
Howmet International 1
Hubbell 9a
Hughes Supply 21b
Humana 12c
Hunt (J.B.) 23d
Huntington Bancshares 3b

I
IBM 18b
IBM 18b
IKON Office Solutions 5
Illinois Tool Works 15a
Illinova 24a
IMC Global 4
Imperial Holly 10b
InaCom 18c
Ingersoll-Rand 15c
Ingram Micro 18c
Inland Steel 16b
Integrated Health Svcs 12c
Intel 9d
Interface 15d
Interim Services 21d
International Flavors 4
Intl. Multifoods 10a
International Paper 19b
Interpublic Group 21c
Interstate Bakeries 10b
Interstate Energy 24a
Intimate Brands 8
Iomega 18b
ITT Industries 5
Jabil Circuit 9d
Jacobs Engineering 21a
Jefferson Smurfit 7b
Jefferson-Pilot 17b
Johns Manville 13a
Johnson & Johnson 12d
Johnson Controls 15a
Jones Apparel Group 6a

K
K N Energy 24b
Kaiser Aluminum 16a
Kansas City Southern 23b
Kaufman & Broad 13b
Kellogg 10b
Kellwood 6a
Kelly Services 21d
Kennametal 15b
Kerr-McGee 11a
KeyCorp 3b
Kimball Intl. 6b
Kimberly-Clark 19b
KLA-Tencor 9c
Kmart 8
Knight-Ridder 20b
Kohl's 8
Kroger 10c

L
La-Z-Boy 6b
Laboratory Corp. of America 12c
Lafarge 13a
Lands' End 8
Landstar System 23d
LCI International 22a
Lear 2b
Leggett & Platt 6b
Lehman Brothers Holdings 17a
Lennar 13b
Lexmark Intl. Group 18b
LG&E Energy 24a
Liberty Financial 17b
Lilly (Eli) 12b
Limited 8
Lincoln Electric 15b
Lincoln National 17b
Littion Industries 9b
Luz Claiborne 6a
Lockheed Martin 1
Longs Drug Stores 12a
Louisiana-Pacific 19a
Lowe's 8
LSI Logic 9d
LTV 16b
Lubrizol 4
Lucent Technologies 22a

M
MagneTek 9a
Mail-Well 7b
Mallinckrodt 12d
Manor Care 12c
Manpower 21d
Mark IV Industries 15a
Marriott Intl. 14c
Marsh & McLennan 17a
Marshall & Ilsley 3b
Marshall Industries 21b
Masco 13a
Mattel 14d
Maxxim 16a
May Department Stores 8
Maytag 6b
MBNA 3a
McCormick 10b
McDonald's 14a
McGraw-Hill 20b
MCI Communications 22a
McKesson 12a
MCN Energy Group 24b
Mead 19b
Medtronic 12d
Mellon Bank 3a
Mercantile Bancorp. 3b
Mercantile Stores 8
Merck 12b
Mentor Automotive 2b
Merrill Lynch 17a
Metals USA 21b
Metro-Goldwyn-Mayer 14b
Meyer (Fred) 8
Michaels Stores 8
Micro Warehouse 8
MicroAge 18a
Micron Electronics 18b
Micron Technology 9d
Microsoft 18c
Millennium Chemicals 4
Miller (Herman) 18a
Minnesota Mining 15a
Mobil 11a
Mohawk Industries 15d
Molex 9d
Monsanto 4
Montana Power 24a
Morgan (U.P.) 3a
Morgan Stanley Dean Witter 17a
Morrison Knudsen 21a
Morton International 4
Motorola 9b
Murphy Oil 11a
Musicland Stores 14d

N
Nabisco Holdings 10b
Nabors Industries 11b
Nacco Industries 15b
Nalco Chemical 4
National City 3b
National Fuel Gas 24b

N
National Semicond. 9d
National Service 9a
National Steel 16b
National Oilwell 21b
NationsBank 3c
Navistar International 2a
NCR 18c
Neiman Marcus Group 8
New Century Energies 24a
New England Electric 24a
New Jersey Resources 24b
New York State E&G 24a
New York Times 20b
Newell 15a
Newmont Gold 16c
Newmont Mining 16c
Newport News Shipbuilding 1
NexTel Communications 22a
NGC 21b
Nicox 24b
Nike 6a
Nipso Industries 24a
Nordstrom 8
Norfolk Southern 23b
Norrell 21d
Northern States 24a
Northern Trust 3b
Northrop Grumman 1
Northwest Airlines 23a
Norwest 3b
NovaCare 12c
NovaCare Employee Svcs. 21d
Nucor 16b

O
Occidental Pet. 11a
Office Depot 8
OfficeMax 8
Ogden 5
OGE Energy 24a
Ohio Casualty 17b
Old Kent Financial 3b
Old Republic Intl. 17b
Olsten 21d
Omnicare 12a
Omnicom Group 21c
Oneok 24b
Oracle 18c
Oron Capital 17b
Outback Steakhouse 14a
Owens & Minor 12d
Owens Corning 13a
Owens-Illinois 7a
Oxford Health Plans 12c

P
Paccar 2a
Pacific Century Fin. 3d
Pacific Enterprises 24b
PaineWebber Group 17a
Parker Hannifin 15a
Paychex 21d
Payless Cashways 8
Payless ShoeSource 8
PECO Energy 24a
Penn Traffic 10c
Penney (J.C.) 8
Pentair 15c
Peoples Energy 24b
PeopleSoft 18c
Pep Boys 8
PepsiCo 6c
Performance Food 10a
Perkin-Elmer 9c
Petsmart 8
Pfizer 12b
PG&E 24a
Phar-Mor 12a
Pharmacia & Upjohn 12b
Phelps Dodge 16c
Philip Morris 6c
Phillips Petroleum 11a
Phillips-Van Heusen 6a
PhyCor 12c
Piedmont Natural Gas 24b
Pier 1 Imports 6b
Pilgrim's Pride 10b
Pilotway 15d
Pioneer Hi-Bred 10b
Pitney Bowes 18a
Pittston Brink's Group 21d
Pittston Burlington Group 23c
Pittway 5

P
PNC Bank 3a
Polaroid 14d
Popular 3c
Potlatch 19b
Potomac Electric 24a
PPG Industries 13a
Praxair 4
Precision Castparts 1
Premier Intl. 5
Primedia 20b
Procter & Gamble 6d
Proffitt's 8
Progressive 17b
PS Co. of New Mexico 24a
Public Service Ent. 24a
Puget Sound Energy 24a
Pulte 13b
Quaker Oats 10b
Quaker State 11a
Qualcomm 9b
Quantum 18b
Quest Diagnostics 12c
Questar 24b
Quorum Health Group 12c

R
R&B Falcon 11b
Ralston Purina 10b
Raychem 9a
Raymond James Finl. 17a
Raytheon 9b
Reader's Digest 20b
Reebok International 6a
Regions Financial 3c
Reliance Steel & Alum. 21b
Republic Industries 23c
Republic New York 3a
Revlon 6d
Reynolds & Reynolds 18a
Reynolds Metals 16a
Richford Holdings 10a
Rite Aid 12a
RJR Nabisco 6e
Roadway Express 23d
Robert Half International 21d
Robinson (C.H.) 23c
Rockwell & E&E 24a
Rock-Tenn 7b
Rockwell International 9a
Rohm & Haas 4
Ross Stores 8
Rouge Industries 16b
Royal Caribbean Cruises 14d
RPM 13a
Rubbermaid 15a
Ruddick 10c
Ryder System 23c
Ryerson Tull 21b
Ryland Group 13b

S
SABRE Group Holdings 18c
Safeco 17b
Safeguard Scientifics 18c
Safeway 10c
Saks Holdings 8
Sara Lee 10b
SBC Communications 22b
Scana 24a
Schering-Plough 12b
Schlumberger 11b
Schwab (Charles) 17a
SCI Systems 9d
Scientific Atlanta 22a
Scotts 4
Scripps (E.W.) 20b
Seagate Technology 18b
Sears, Roebuck 8
Service Corp. Intl. 21d
Service Merchandise 8
ServiceMaster 21d
Shaw Industries 15d
Sherwin-Williams 13a
Shoney's 14a
Sigma-Aldrich 12b
Silgan Holdings 7a
Silicon Graphics 18b
SLM Holding 17a
Smart & Final 10a
Smith International 11b
Smithfield Foods 10b
Snap-on 15b

S
Sollectron 9d
Solutia 4
Sonat 24b
Sonoco Products 7b
Southern 24a
Southern New Eng. Tel. 22b
Southern Union 24b
Southland 10c
SouthTrust 3c
Southwest Airlines 23a
Southwest Gas 24b
Spiegel 8
Sports Authority 8
Springs Industries 15d
Sprint 22a
St. Paul 17b
Stage Stores 8
Standard Products 2b
Standard Register 18a
Stanley Works 15b
Staples 8
Star Banc 3b
Starbucks 10b
State Street 3a
Steelcase 18a
Stewart & Stevenson 15c
Stone & Webster 21a
Stone Container 7b
Storage Technology 18b
Surza Foods 10b
Summit Bancorp. 3a
Sun 11a
Sun Healthcare Group 12c
Sun Microsystems 18b
SunAmerica 17b
Sundstrand 1
SunTrust Banks 3c
Supervalu 10a
Sysco 10a

T
Talbots 8
Tandy 6b
Tech Data 18a
Teco Energy 24a
Tecumseh Products 13a
Tektronix 9c
Teleflex 15a
Telephone & Data Sys. 22a
Tells 22a
Temple-Inland 7b
Tenet Healthcare 12c
Tenneco 5
Teradyne 9c
Terra Inds. 4
Texas 11a
Texas Industries 16b
Texas Instruments 9d
Texas Utilities 24a
Textron 5
Thiokol 1
Thomas & Betts 9d
3Com 18c
3M 15a
360 Communications 22a
Tiffany 8
Time Warner 20b
Times Mirror 20b
Timken 15c
TJX 8
Torchmark 17b
Tosco 11a
Tower Automotive 15a
Toys 'R' Us 8
Tracor 9b
Transamerica 17b
Transatlantic Holdings 17b
TransMontaigne Oil 11b
Travelers Group 17a
Travelers Property Casualty 17b
Tribune 20b
Tricon Global Restaurants 14a
TRW 5
Tupperware 15a
Tyco Intl. 15c
Tyson Foods 10b

U
U.S. Bancorp 3b
U.S. Foodservice 10a
U.S. Home 13b
U.S. Office Products 8
U.S. Surgical 12d
UAL 23a
UGI 24b

V
Valero Energy 11a
Valhi 5
Value City 8
Vanguard 18c
Varn Associates 9c
Vastar Resources 11a
Vencor 12c
VF 6a
Viacom 14b
Viad 5
Viking Office Products 8
Vincam 21d
Vlastic Foods Intl. 10b
Volo Info. Sciences 21d
Vulcan Materials 13a
VWR Scientific Products 2

W
Wabash National 2b
Wachovia 3c
Wackenhut 21d
Wal-Mart Stores 8
Walgreen 12a
Wallace Computer 18a
Walter Industries 16b
Warner-Lambert 12b
Washington Gas Light 24
Washington Mutual 17c
Washington Post 20b
Washington Water Power
Weirton Steel 16b
Weiss Markets 10c
WellPoint Health 12c
Wells Fargo 3d
Wendy's Intl. 14a
Western Atlas 11b
Western Digital 18b
Western Resources 24a
WestPoint Stevens 15d
Westvaco 19b
Weyerhaeuser 19b
Whirlpool 6b
Whitman 5
Wicor 24b
Williams-Sonoma 6b
Winn-Dixie Stores 10c
Wisconsin Energy 24a
Witco 4
Woolworth 8
World Color Press 21c
WorldCom 22a
Worthington Inds. 16b
WPS Resources 24a
Wrigley (Wm.) Jr. 10b

X
Xerox 18b
Yellow 23d
York Intl. 13a
Zale 8

Y
Yale 8

Z
Zale 8

The life we save may be your kid's.



TROUBLED TEENS AREN'T NEWS

any more. Last year, over half a million California were reported as abused or neglected. On any given day, 100 found their way into juvenile detention facilities because they broke the law. Teen pregnancy, suicide and drug abuse are everyday stories. Even scarier, the odds that your kid will become one of these statistics is one in five.

There's a ray of sunshine, however. It's that places like Sunny Hills exist at all.

The help difficult kids. And impossible ones.

Consider Patrice. She's a real person, and she's in the picture to help. When she came to Sunny Hills two years ago, she described herself as a liar who hated herself and wanted to die. In August, she enrolled at Kings Community College. She put it this way:

"Sunny Hills taught me to believe in myself. Now I know that I'm somebody. I've learned to be honest, to trust people, and to make good choices. I know I'll be okay."

Her recovery wasn't a lucky accident. It was a matter of intensive treatment, monitored recuperation and controlled therapy. She lived on the San Anselmo campus where she received 24-hour supervision and treatment along with an individualized education program. As her behavior improved, she worked into the job training program and eventually into

aftercare. In all, Sunny Hills has six different residential and day treatment programs at four different locations.

Saving lives is hard work.

Marin is fortunate to have a Sunny Hills, but the problem is far greater than Sunny Hills can handle on its own.

Frankly, we need help. Not so much the big-check or dedicated-volunteer type of help (although we're delighted whenever either of those things happen).

We need the very simple, small-scale kind of help that anyone reading this message can offer, effortlessly.

The Bargain Box and the Grape Festival: two painless ways to help.

First, you can help the next time you clean out your closet. Bring

whatever you're passing along to the Bargain Box in San Rafael, and, while you're there, check out whatever we have for sale.

Yes, there are other thrift shops around, and there may be one closer to where you live. But it can't help Northern California's troubled kids as much as ours can.

Second, enjoy the crafts, music and gourmet food at the Grape Festival on the first Saturday in October at Larkspur Landing. It's all for fun, and it all benefits Sunny Hills.

It's not much to ask. But if you find time to do those two little things, you'll be helping to save another Patrice.

SUNNY HILLS

CHILDREN'S SERVICES

300 Sunny Hills Drive, San Anselmo, with additional locations in San Rafael and Sausalito. The Bargain Box is located in San Rafael. If you'd like to know more, call us at 457-3200 and ask for the director



People Have Different Needs, Abilities And Goals.

The Arc-San Francisco and MARC (formerly the Marin Association for Retarded Citizens) are committed to securing for all people with developmental disabilities the opportunities to choose and realize their individual goals.

Opportunities to live, work, learn and play in our community.

The Arc-San Francisco and MARC are two non-profit organizations dedicated to serving people with developmental disabilities and their families.



The Arc San Francisco

(415) 255-7200



(415) 472-2575

Is fishing at Waterfall Resort, Alaska Business or Pleasure?



Winner - Newport Beach, CA
Devin Rowe
of Kings Tournament Winner - 65.7 lb. King Salmon

The decision is good for business and a pleasure to make.

Word Dealers Association of Southern California "For the last 14 years, Waterfall Resort has been our incentive destination of choice. Our benefits include not only improved sales results, but the Waterfall experience itself helps build a camaraderie unlike any other travel destination we have used." - Rich Defrank, Manager

Waugh Family of Las Vegas "Since July of 1985, we have been bringing groups of various sizes to Waterfall Resort. I believe we are somewhat like the salmon. We return because of instinct. Our instincts have been nurtured and rewarded by the wonderful staff of Waterfall and the beauty that is southeast Alaska." - David Waugh



Fax this page to Waterfall (907) 225-8530 and receive our brochure and video.

e-mail: waterfal@alaska.ktn.net
internet: <http://www.waterfallresort.com>

Name (Print) _____

Company _____ Title _____

Address _____

City _____ State _____ Zip _____

Area & Phone _____ Fax _____

Interested ☐ Very Interested ☐ Saltwater ☐ Freshwater ☐

Business Entertainment ☐ Pleasure ☐ Number of Guests _____

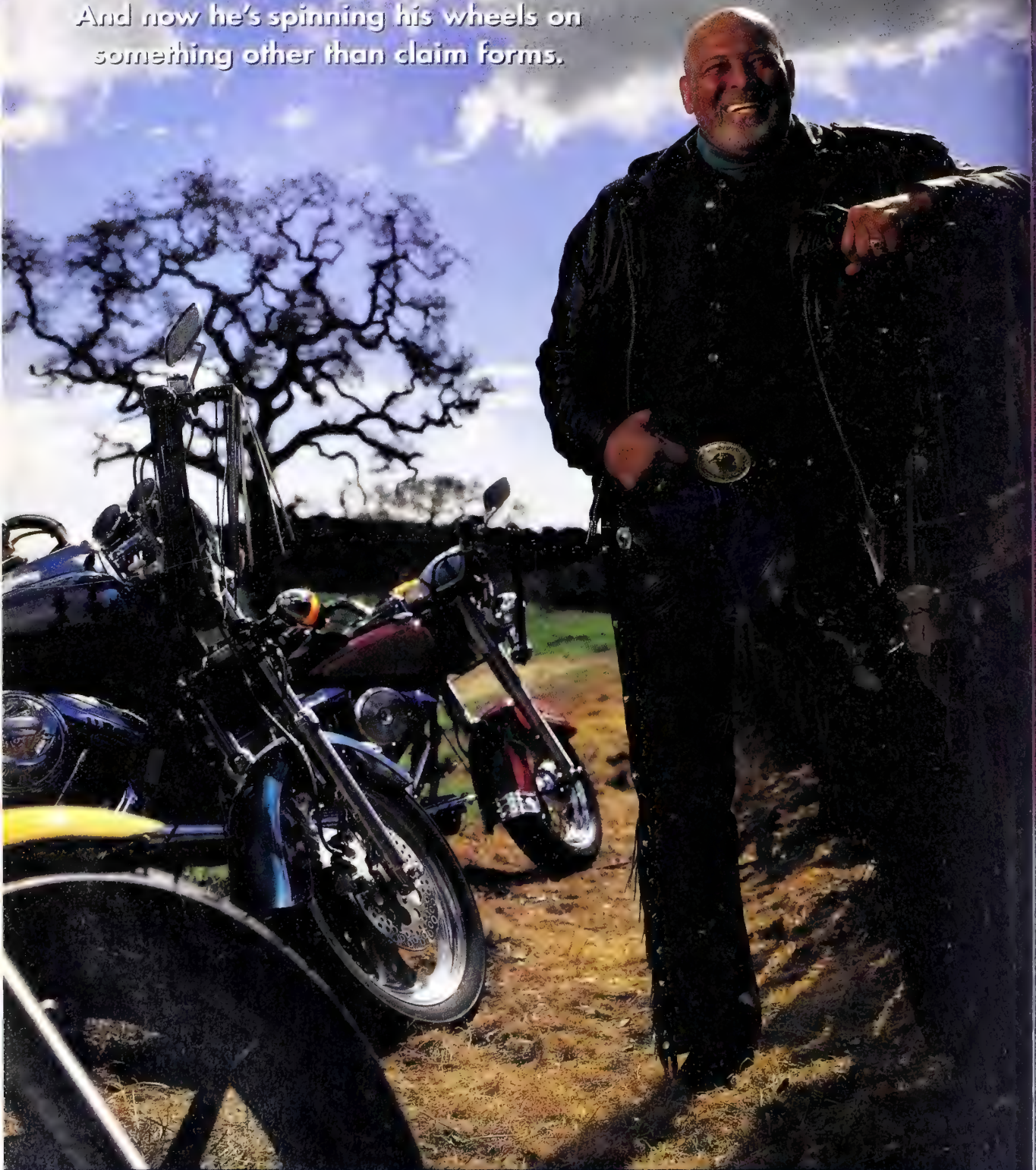
Best Season 1998 ☐ 1999 ☐ 2000 ☐ May June July Aug. Sept.

Date of Business Week issue _____



INFORMATION / RESERVATIONS 800-544-5125

John Forbes switched to State Fund.
And now he's spinning his wheels on
something other than claim forms.



Taking care of your workers' comp insurance doesn't have to be an endless cycle of paperwork and problem. At least not if you're insured with State Fund. We've been California's leading provider of workers' comp insurance for more than 80 years. And with offices statewide, you can always get the support you need. No wonder we're the choice of over 220,000 California businesses. For more information, just call your broker or 1-888-STATE FUND. And see why we're the leader of the pack.

STATE
COMPENSATION
INSURANCE
FUND

www.sfcif.com

Get more. Worry less.

The path to real-world solutions

SUPERCOMM '98

JUNE 7-11, 1998

ATLANTA, GEORGIA

Explore the Whole World of Communications

No matter which technologies you need to solve your most demanding business communications problems, all paths lead to SUPERCOMM '98. It's the *only* event that takes you right to the center of the vast universe of convergence and allows you to explore the whole world of communications.

Solutions Become Reality at SUPERCOMM
More than 45,000 communications professionals will benefit from SUPERCOMM's powerful combination of 250+ world-class educational conferences* and a colossal, solutions-packed exhibition.

More Than 700 Exhibits Will Showcase:
ADSL/xDSL, ATM, Broadband, Cable TV, CPE, Computer Telephony, Enterprise Networks, Fiber Optics, The Internet, Intranets, ISDN, Multimedia, Public & Private Networks, Satellite Communications, Software, Wireless/PCS and much more!

Put Yourself on the Path to Real-World Communications Solutions Today!
To attend: 1-800-2-SUPERC or 1-312-559-3327; fax, 1-312-559-4111.
To exhibit: 1-800-COMM-NOW or 1-703-907-7480; fax, 1-703-907-7746.

For registration information, fill out and mail today!

SUPERCOMM '98, 349 W. Randolph, Suite 600,
Chicago, IL 60661-2208 USA

Name

Title

Organization

Address

City State

ZIP/Postal Code Country

Phone Fax

E-Mail

Interest: ☐ Registering ☐ Exhibit Space

Conference Interest: ☐ JCA ☐ IEC

☐ IEEE ☐ GTM Forum ☐ PSW

No one under 18 years of age will be admitted.

To register and check out up-to-the-minute information about SUPERCOMM '98, visit www.supercomm98.com!

SUPERCOMM Educational Programs Developed and Presented by: International Communications Association • Annual SuperConference • International Engineering Consortium • Communications Forum • SUPERCOMM Executive Program • IEEE Communications Society • International Conference on Communications (ICC '98) • SUPERCOMM Global Telecom Market (GTM) Forum.

EDITED BY AMY DUNKIN

FROM RUSSIA —WITH RED TAPE

Family and home were alien concepts when Russian-born Alex came to live with his adoptive parents, Marla and Duncan Chisholm, of Midland, Tex., in March, 1997. Already in his five years of life, Alex had been ripped from his neglectful birth family, then from two orphanages in Novorossiysk. But four months after he arrived in the U.S., a light flickered on. "You my mama and I you little boy!" he exclaimed one day to Marla. A short time later, on returning from a family vacation, Alex wandered through the house, methodically touching his toys, then broke into a smile. "We came home!" he exulted. "We went away, and we came home!" The Chisholms knew the light was on to stay.

Alex's happy outcome is more typical than recent media reports about former Soviet bloc adoptions suggest. Stories have described emotionally damaged children unable to bond with their new families, an Arizona couple accused of abusing their

adopted daughters on the flight home, and a Colorado mother who beat to death her 3-year-old Russian son for misbehaving. Tragic as these tales are, they hardly reflect the mostly happy linkings between Americans and children of the former U.S.S.R.

Last year, U.S. citizens adopted 3,816 children from orphanages in Russia, which now surpasses China as America's No. 1 source of foreign adoptions. Russia was followed by Romania, Bulgaria, Latvia, and several former Soviet republics. While some children from the region have displayed severe symptoms of reactive attachment disorder—the heart-breaking failure to bond—most problems are treatable. So are language delays and physical maladies common to the orphans: malnutrition, rickets, parasites, and exposure to syphilis and tuberculosis. "I'm not trying to minimize the heartache some parents have gone through," says Maureen Evans, director of the Joint Council on International Children's Ser-



vices, an adoption agency coalition in Cheverly, Md. "But the majority of adoptions have been extraordinarily successful."

BACKLASH. Statistics bear her out. Take a recent survey by Cradle of Hope Adoption Center in Silver Spring, Md., of 1,246 U.S. families who adopted from the former U.S.S.R. Some 84% termed their children's adjustment very good, and another 11% called it good.

Despite this high satisfaction level, parents considering an adoption from the region must steel themselves for frustrating setbacks and delays. Russia is a huge,

inefficient country where regional officials set their rules. Slow bureaucracy hold up record processing, assignment of children, months. And suspicions of the large sums of cash involved, plus wild rumors as one about Americans "ing adopted babies' or have touched off a backlash against foreigners. Says Volodina, head of the Russian Education Ministry's department for children's rights and social welfare: "We understand people need to money for translators, vers, and lawyers. But the average Russian reads the newspaper, looks like people are buying and selling babies."

In Georgia, for instance, foreign adoptions dropped sharply after First Lady Nanuli Shevardnadze

What To Ask Before Adopting Abroad

- Can you afford the \$11,000 to \$25,000 an international adoption might cost?
- Are you willing to accept a child over age 1? It's an important question if you're considering the former Soviet bloc.
- Have you thought about the implications of an interracial adoption? That can occur with Eastern European, Asian, and Latin American placements.
- Have you educated yourself about the effects of orphanage life? Are you ready, emotionally and financially, to deal with the worst-case scenario of a child with severe health or adjustment problems?
- Are you prepared to immerse yourself in the child's native culture to help him or her make a healthy reconciliation with the past?



NO REGRETS

Greg and Holly Richardson with their nine children. They adopted five orphans from the former Soviet bloc, one of whom later died

(\$30, 301 322-1906.) Next, you'll compile a dossier that includes a Justice Dept. fingerprint check, certified birth certificates, and a letter from the U.S. Immigration & Naturalization Service allowing you to bring a foreign orphan into the U.S. You must also arrange a home study, in which a social worker interviews you and writes a report on your motives, finances, and general fitness to adopt. The document gathering process takes six months or more.

Once your adoption agency receives your paperwork, you'll wait up to a year for the

magic call announcing: "We have a child for you." Weeks or months later, the agency gives you the go-ahead to board a plane to Moscow, Bucharest, or another city to meet your "facilitator." This is the person who will escort you to meet with your child

and cut through red tape.

At this stage, things can get shady. Adopting Americans often arrive with thousands of dollars in cash, which the facilitators are believed to hand to local bureaucrats processing everything from passports to adoption decrees. You may be told not to ask questions and to bring gifts like jewelry. "When you have a country where people don't have enough food on the table, you know perfectly well this system is going to work because of gifts," says Flicka Van Praagh, international adoptions director at the Spence-Chapin agency in New York.

COMPLICATIONS. The amount of time you spend in the country depends on the vagaries of bureaucracy and your judge. Most Russian adoptions now require two trips spaced a few weeks apart. And complications can arise—like suddenly learning your child has adoptable siblings. With the adoption complete, you'll head to Moscow for a mandatory medical exam for your child, plus visa processing at the U.S. Embassy, before the trip home.

Once back in the U.S., excitement may give way to the grim realities of post-orphanage health. "Catch-up is the name of the game," says Dr. Jane Aronson, a Mineola (N.Y.) pediatrician who reviews adoptees' medical records and videos for U.S. agencies. Except for hepatitis B, HIV, and fetal alcohol

her opposition last and pledged to find locally for the orphans l to parents overseas. ssia's Duma is slated May 13 on four bills g adoption restric- Vaiting times for for- licants could increase from the current av- f 6 to 18 months. De- ese obstacles, Russ- U.S. officials don't to see foreign adop- d. U.S. ratification of ue Convention, an in- nal treaty establish- entral adoption au- in each signing , could reassure the s further.

u want to adopt in or Eastern Europe, to spend a total of to \$25,000 on agency ment fees, drivers nslators, and travel,

Generally, you're eligible to adopt whether you're single or married and if you're 25 to 55, with or without previous children. Russians may ignore their own restrictions, such as an age ceiling of 42 for adopting an infant. While you may bring home an infant as young as 7 months, most children are 1 and up.

Your first step is choosing an agency. Groups like Adoptive Families of America and the National Adoption Information Clearinghouse can help (table). The Joint Council offers an excellent resource, *The Adoptive Parent Preparation System*

Where To Go for Advice

ORGANIZATION	PHONE/WEB SITE (HTTP://)
ADOPTIVE FAMILIES OF AMERICA	800 372-3300 / www.adoptivfam.org
FAMILIES FOR RUSSIAN & UKRAINIAN ADOPTION	703 560-1684 / www.frua.org
FAMILIES WITH CHILDREN FROM CHINA	212 579-0115 / www.fwcc.org
IMMIGRATION & NATURALIZATION SERVICE	travel.state.gov
INTERNATIONAL CONCERNS FOR CHILDREN	www.fortnet.org/icc
JOINT COUNCIL ON INTL. CHILDREN'S SERVICES	301 322-1906 / www.jcics.org
NATIONAL ADOPTION INFO. CLEARINGHOUSE	888 251-0075 / www.calib.com/naic
PARENT NETWORK FOR THE POST-INSTITUTIONALIZED CHILD	www.pnpic.org
RAINBOW KIDS	www.rainbowkids.com

syndrome, most problems are reversible. Yet considering the orphans' origins, you should expect some difficulties.

Attachment disorder prompts great fear. A child's lack of eye contact, inability to be comforted, and indiscriminate affection toward strangers are all signs. Yet Aronson estimates that fewer than 10% of the 300 internationally adopted children under 2 that she has seen have

had attachment problems. In children 5 and up, the figure has been 25%. Most respond well to therapy.

Holly Richardson of Orem, Utah, should know. She and her husband, Greg, have adopted five former Soviet bloc children, adding to their family of four biological children and one U.S. adoptee. One adoptee died, at age 4, from Down's syndrome. The other four have disabilities,

from hepatitis B to missing fingers and toes. Holly says Alina, 8, from Romania, and Mira, 10, from Kazakhstan, had attachment issues. "They hated to be held," she says. But both have responded to treatment, and Holly says she has successfully used bonding techniques, such as massage, on her two Russian toddlers—Roman, 22 months, and Kristiana, 19 months. Despite her kids' health problems, Holly

has no regrets. "There's never been a time when I thought, 'We wish we had done this.'" She plans to adopt more kids from the region—and soon. *Joan O'Neil with Patricia Kranz*

For more on adoptions, go to www.businessweek.com. Members can also attend an Online conference (keynote by BW) on Monday, May 11, 10 p.m. EDT.

SMART MONEY

'JUNK BONDS HAVE GROWN UP'

High-yield bonds are sizing up. Last year's record-breaking \$120 billion in junk bond issuance pales in comparison with what's on tap for 1998. So far this year, \$64 billion in junk debt has come to market, vs. \$23 billion for the same period last year. Demand is so intense that yield spreads on junk have fallen to 300 basis points over U.S. Treasuries, 120 points less than the historical average. Moreover, investors are accepting poorer-quality issues that might not have succeeded only a couple of years back. "The market hasn't been this heated since the 1980s," says Ernest Monrad, the 22-year veteran manager of Northeast Investors' high-yield bond fund.

That decade, of course, ended with a crash. But bond mavens are betting this hot market won't end similarly. They note that a lot has changed since the '80s, when junk was used to fund highly leveraged transactions that ran aground. "Junk bonds have grown up," says Bart Geer, portfolio manager for State Street Research

High-Income fund. Indeed, today's market features less leverage, more liquidity, and a more diverse group of investors. What's more, the robust economy has resulted in strong returns and average default rates of just 2%, down from 10% in 1989.

For those reasons, high-yield bonds are considered safer and more desirable than they were a decade ago. That's especially true now because "their high coupons act as a cushion against a market decline," says Margaret Eagle, portfolio manager of Fidelity Advisor High-Yield fund since 1987.

SURVIVORS. So how should you play the junk market? Financial advisers recommend shunning individual high-yield issues and focus-

ing instead on funds with solid, long-term records. To find these steady performers, we looked for funds run by veteran managers who have lived through the pain of the crash and have 3-, 5-, and 10-year returns in the top half of their category (table). Managers with this kind of track record might be better able to handle any downturn if the economy should slow. Many of the steady winners currently

Yield Bond Fund. Manager Daniel Charleston buys domestic issues by high-margin businesses with strong cash flow. One example: Pinnacle Holdings, which owns towers used by pagers, cell phones, and other telecom services. But Northeast Investors' Monrad and his co-manager, Ernest Monrad, shun telecoms. "Many of these companies have negative cash flow, and we don't know

which ones will succeed," says Bruce Monrad. Instead, they see value in gaming issues such as Trump's Atlantic City and Boyd Gaming. They're also interested in the budding European junk market, which is getting a strong push from the euro's birth and investor flight from Asia.

The long-term winners we selected aren't always the junk market's sexiest performers. But right now you're probably better off sticking with funds that "plod along with consistent

ly good records," says Merrill Lynch's global high-yield strategist Martin Fridson. That will help shield you from disappointment later on. Fridson: "Slow and steady wins the race." *Toddi Gitlin*

The best move is to steer clear of individual issues and stick with funds

like bonds from cable-TV and local phone companies. Eagle observes that "these companies are insulated from Asia," which eventually could pose problems for the U.S. economy.

Also sticking close to home is Seligman High-

THE PROS' JUNK PLAYS

FUND/MANAGER	TOTAL RETURN*		COMMENTS
	YEAR TO DATE	YTD 3 YEAR	
FIDELITY ADV. HI-YLD. T/MARGARET EAGLE	6.10%	15.00%	Likes cable-TV operators
NORTHEAST INVESTORS/ERNEST MONRAD	6.30	16.10	Favors gaming, not telecom
SELIGMAN HI-YLD. A/DANIEL CHARLESTON	5.44	15.50	Buying local phone cos.
STATE ST. RESEARCH HI-INC. A/BART GEER	6.30	14.80	Likes broadcasting, media

*Through May 1

DATA: MORNINGSTAR INC.

You know more
of a road by having
travelled it
than by all the
conjectures and
descriptions
in the world.

—William Hazlitt



ZURICH

Drawing on years of experience to help you cover new ground. Providing you with
innovative insurance, financial protection and investment management. Globally. And locally.
The Zurich Group. Building relationships, solution by solution.

American • 800-382-2150 • www.zurichamerican.com

PC HELL, PART II: I'VE GOT COMPANY

Evidently, I struck a nerve. When I wrote "My trip through pc hell" (BW-Apr. 20)

about my troubles after adding a second hard drive to my Gateway 2000 Pentium, I

had no idea the tale would generate such an outpouring of E-mail. Many readers were sympathetic to my plight, having suffered their own PC nightmares. A few thought I was off base. And a flock of Apple Macintosh loyalists couldn't help but say "I told you so."

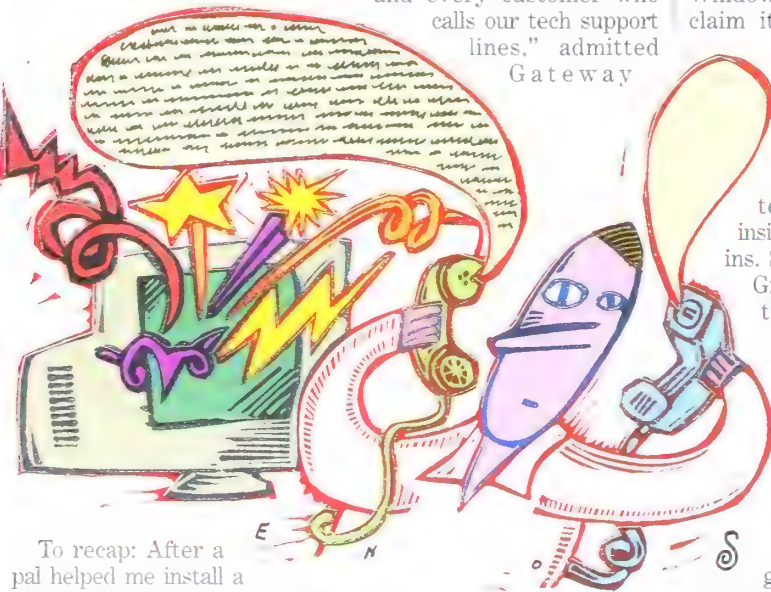
because several Gateway reps dispensed wrong or conflicting instructions.

"I, too, own a Gateway and had a recurring problem with my CD-ROM drive," noted one reader. "Every time I called, I got different

FEEDBACK

advice." And, "not being able to leave a message and getting disconnected because all lines are busy is unacceptable customer service." Added another: "I have had two similar experiences. Hope you got Gateway's attention." I sure did. "We could have performed better, which is our goal for each and every customer who calls our tech support

lines," admitted Gateway



To recap: After a pal helped me install a Western Digital hard drive, my Zoom Telephonics modem went on the fritz. I called the SOS teams at Zoom and Microsoft. Unable to help, they sent me to Gateway, which promises technical support for as long as you own your machine. But my system crashed after I downloaded a new BIOS, (basic input-output system, which eases the transfer of data between a PC and peripherals), and other software. That was partly

President Jeff Weitzen.

Weitzen added that in my case, Gateway's diagnosis "was made even more complex because of the improper installation of a third-party hard drive by one of [Baig's] friends." Fair point. But that didn't account for Gateway's reps not calling me back as promised, or my difficulty getting through to them. Weitzen added that Gateway didn't abandon me and that

the company had won five major tech-support awards last year. Wrote Weitzen: "One service goal for 1998 is faster resolution of customer problems, and in pursuit of this, we will be relentless."

My tech-support woes struck a nerve with owners of Packard Bell and Dell PCs, too. But some readers thought the fault lay with me and not the hardware makers. I should have paid a pro to install my new drive, they suggested. "I became angry while reading your column," noted Glenn Kafka of Warren, N.J. "Not knowing anything about the internals of the computer, cheapskate Ed decided to do it himself. He then gets in trouble and blames everyone else."

MAC PRAISES. Mac fans who wrote in, not surprisingly, placed the blame for my foulup on the complexities of Windows computing. They claim it's no sweat to add

components to a Mac. "I installed the second hard drive on my Mac in about 15 minutes, easily, without any technical assistance,"

insisted reader Jay Gaskins. Stephen F. Brophy of Greenwich, Conn., said the story "tickled me no end. I got up and calmly walked down the stairs to my office and kissed my Mac full on the CPU." By day, Jeff Battersby of Beacon, N.Y., fixes Windows machines. He goes home to a Mac.

"What continues to amaze me is that so many businesses and individuals willingly subject themselves to the pain and expense of maintaining Microsoft-based systems. I shouldn't complain. As long as they manufacture operating systems, Microsoft will put bread on my table." As for me, I'm happy to report my Windows machine works fine again—or at least it will until I try to add something else.

Edward C. Baig

FUND WATCH

■ GROWTH ENGINE. Rockland Growth Fund is up 19.6% this year, well above the 11.1% for the Russell 2000 Small-cap index. It helps that the fund, which levies a 3% load, still has only \$15 million in assets—allowing it to take meaningful positions in small stocks without moving the market. Co-manager Richard Gould figures Rockland (800 497-3933) also gets leg up via the detailed industry research method his colleague Charles Cruise learned while working for renowned growth-stock investor Foster Friess Brandywine Fund. Gould says one of Rockland's favorite ways of finding good buys is to ask companies who their most competent rivals are. "You wouldn't think competitors would say anything good about a company," says Gould, "but often they do." Two of Gould's favorite stocks

ONSALE, an online auctioneer. "Compaq may have old computers that it wants to get rid of, they go to ONSALE.... Compaq's happy because they get double or triple what they would have gotten. ONSALE is happy because they don't take any inventory risk and they make 10%."

Family Golf Center is a driving-range operator. "They're the largest in the country. They're going at about 40% a year. The stock is trading at about half that in terms of multiple." Robert Baig

For an expanded version, visit www.businessweek.com/tc or AOL, keyword: BW



BREITLING

1884



LT SUPEROCEAN

Professional diver's watch built to the exacting standards of the Navy's SEALs combat divers, the COLT SUPEROCEAN offers the most resistant stainless steel case ever designed by BREITLING. To withstand the terrific pressures experienced at depths of thousands of feet under water, the case is equipped with a 1.5 mm-thick back and an extra-thick glareproofed crystal with a thickness of 3.7 mm.

AUTHORIZED BREITLING AGENT

LANO FINE JEWELRY

111 NW Barry Road
Kansas City, MO 64155
(816) 436-6888

CATALOG PLEASE CALL 800/641-7343



Surfacing safely

As the COLT SUPEROCEAN rises to the surface after a dive, its built-in pressure valve vents the excess helium accumulated inside the case.

For the ultimate in diving watches, BREITLING offers an exclusive 18K gold version of the COLT SUPEROCEAN featuring a protective titanium frame around the movement to offset the gold case's lesser resistance to extreme underwater pressures.

INSTRUMENTS FOR PROFESSIONALS™



BizLink

Unless, of course, you actually enjoy filling out forms.

Want advertiser information now, without having to fill out one of those pesky reader service cards? Connect with BizLink, Business Week's new electronic reader service fulfillment system. You'll get the information you need the way you want it—by fax, phone, mail, or e-mail. It's free, it's fast and nothing could be simpler. **Why wait?**

Access BizLink now:

www.businessweek.com/BizLink/

BusinessWeek

Most Read. Best Read. Worldwide.

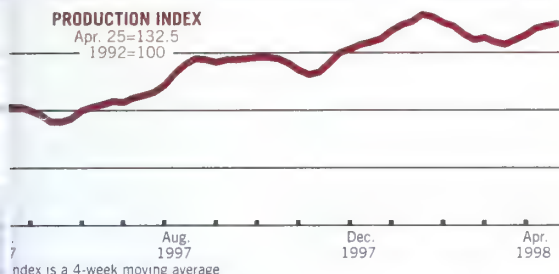
And if you don't have an Internet connection, just call 1-800-848-6708.

May 18, 1998

1 3Com	17 Network Associates	ANGOLA	42 SOCIEDADE DE AVIÇÃO
2 Adobe Systems, Inc.	18 Oracle	Special Advertising Section	LIGEIRA (SAL)
3 Air Liquide	19 Praxair	33 TELEVISÃO COMERCIAL	43 BANCO DE FOMENTO E
4 American General Insurance	20 Prudential Securities	34 SECRETARIA DO CAFÉ	EXTERIOR
5 American Power Conversion (APC)	21 QAD Inc.	35 GOVERNO DA PROVÍNCIA DE LUANDA	44 BANCO DE COMERCIO E
6 BREITLING WATCHES	22 Qualcomm	36 MINISTÉRIO DE	INDUSTRIA
7 Cabletron Systems, Inc.	23 Quantum	HOTELARIA E TURISMO	45 TECNOCARRO
8 Charles Schwab	24 Rockwell Corporation	37 HOTEL PRESIDENTE	46 INDUFER
9 Comdisco	25 SAPIENS TECHNOLOGIES	38 CAIXA DE CRÉDITO	47 BRICOMIL
10 Dale Carnegie Training	26 SAS Institute, Inc.	AGRO-PECUÁRIA E	48 ANGOLA AIR CHARTER
11 Datek Online	27 Shangri-La	PESCAS	49 ENANA
12 Digital	28 SRDC	39 ANGOLA TELECOM	50 ENSA
13 Flexi International Software	29 TIBCO	40 GOVERNADOR DA	51 EQUATOR BANK LIMITED
14 GTE	30 Trend Microsystems	PROVÍNCIA DE CABINDA	52 TEXACO PANAMA INC
15 J.D. Edwards	31 Walker Interactive Systems	41 INSTITUTO DE	ANGOLA
16 MCI Data	INTERNET ONLY	INVESTIMENTO	53 AGIP ANGOLA
	32 Amoco Chemicals	ESTRANGEIRO	54 SONANGOL
			DISTRIBUIDORA

PRODUCTION INDEX

Change from last week: 0.2%
Change from last year: 5.8%



The production index rose during the week that ended Apr. 25. The index was also up, to 132.8 from 131.5. After seasonal adjustment, truck production was up 12.6%. During 1997, trucks accounted for 1% of the Big Three's registered new vehicles. This week, there were increases in the output of the Dodge Ram Pickup, Ford Explorer, and Chrysler Town and Country. All other index components showed increases for crude-oil refining and lumber production.

Production index copyright 1998 by The McGraw-Hill Companies

FINANCIAL INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
PRICES (5/1) S&P 500	1121.00	1107.90	37.9
RATE BOND YIELD, Aaa (5/1)	6.78%	6.72%	-11.3
SUPPLY, M2 (4/20) billions	\$4,170.7	\$4,147.3r	7.0
CLAIMS, UNEMPLOYMENT (4/25) thous.	319	318r	-7.3
AGE APPLICATIONS, PURCHASE (5/1)	282.5	241.4	49.2
AGE APPLICATIONS, REFINANCE (5/1)	1,326.5	1,157.0	357.7

Sources: Standard & Poor's, Moody's, Federal Reserve, Labor Dept., Mortgage Assn. (Index: March 16, 1990=100)

INTEREST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
FEDERAL FUNDS (5/5)	5.22%	5.28%	5.50%
DISCOUNT RATE (5/5) 3-month	5.50	5.51	5.70
LIBOR, 3-month (5/6) 3-month	5.58	5.61	5.71
FIXED RATE MORTGAGE (5/1) 30-year	7.28	7.19	8.20
ADJUSTABLE MORTGAGE (5/1) one-year	5.80	5.77	6.10
5/1 ARM	8.50	8.50	8.50

Sources: Federal Reserve, HSH Associates, Bloomberg Financial Markets

PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (5/2) thous. of net tons	2,228	2,200#	5.8
AUTOS (5/2) units	116,409	120,240r#	-10.3
TRUCKS (5/2) units	147,847	150,453r#	29.9
ELECTRIC POWER (5/2) millions of kilowatt-hrs.	56,601	56,527#	1.0
CRUDE-OIL REFINING (5/2) thous. of bbl./day	15,265	14,895#	5.9
COAL (4/25) thous. of net tons	21,184#	20,156	1.2
LUMBER (4/25) millions of ft.	496.3#	498.4	-3.7
RAIL FREIGHT (4/25) billions of ton-miles	27.4#	26.5	2.2

Sources: American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, American Petroleum Institute, Energy Dept., WWP1, SFP2, Association of American Railroads

COMMODITY PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (5/6) \$/troy oz.	301.000	308.250	-11.8
STEEL SCRAP (5/5) #1 heavy, \$/ton	133.50	133.50	0.0
COPPER (5/1) ¢/lb.	87.6	87.6	-23.5
ALUMINUM (5/1) ¢/lb.	70.0	69.8	-10.8
COTTON (5/2) strict low middling 1-1/16 in., ¢/lb.	63.42	61.62	-8.8
OIL (5/5) \$/bbl.	15.36	15.49	-20.6
CRB FOODSTUFFS (5/5) 1967=100	239.98	233.24	1.7
CRB RAW INDUSTRIALS (5/5) 1967=100	306.08	306.21	-8.1

Sources: London Wednesday final setting, Chicago market, Metals Week, Memphis market, NYMEX, Commodity Research Bureau

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (5/6)	132.75	132.05	124.97
GERMAN MARK (5/6)	1.77	1.79	1.72
BRITISH POUND (5/6)	1.66	1.67	1.64
FRENCH FRANC (5/6)	5.92	6.01	5.81
ITALIAN LIRA (5/6)	1741.8	1773.0	1703.0
CANADIAN DOLLAR (5/6)	1.44	1.44	1.38
MEXICAN PESO (5/6) ³	8.475	8.499	7.921
TRADE-WEIGHTED DOLLAR INDEX (5/6)	110.0	110.4	106.0

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars. Trade-weighted dollar via J.P. Morgan

a In the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

THE WEEK AHEAD

SALES

Friday, May 13, 8:30 a.m. EDT ▶ Retail sales probably increased by a modest 0.3% according to the median forecast of economists surveyed by Standard & Poor's, a division of The McGraw-Hill Companies. Sales slipped 0.1% in March. Light motor vehicles, store buying likely edged 0.4% last month, after rising 0.4% in March.

ENERGY PRICE INDEX

Friday, May 13, 8:30 a.m. EDT ▶ Prices of finished goods likely edged up 0.1% in April, after six consecutive declines. Falling energy prices caused a sharp decline in the index. Excluding food

and energy, core prices were likely flat, the same as in March.

CONSUMER PRICE INDEX

Thursday, May 14, 8:30 a.m. EDT ▶ Consumer prices for goods and services probably increased 0.2% in April, says the S&P MMS forecast. Prices were unchanged in March. Excluding food and energy, prices also likely rose 0.2%, after a 0.1% gain in March.

BUSINESS INVENTORIES

Thursday, May 14, 8:30 a.m. EDT ▶ Inventories held by manufacturers, wholesalers, and retailers probably grew 0.3% in March, after a 0.6% jump in February. Inventory accumulation was quite strong in the first

quarter, even as factory output slowed. That suggests that much of the inventory buildup came from imports.

INDUSTRIAL PRODUCTION

Friday, May 15, 9:15 a.m. EDT ▶ The S&P MMS forecast calls for a 0.3% gain in April's industrial output. Output growth slowed sharply in the first quarter, with overall industrial production rising at an annual rate of just 0.9%, after a 7.2% surge in the fourth quarter. Some of the slowdown was because the mild winter cut energy demand, but some easing reflected smaller gains in factory output. Operating rates for all industry probably averaged 82.2% in April, unchanged from the March level.

This Week, Online

Business Week presents frequent live conferences and chats on America Online—your opportunity to ask questions about timely topics.

BusinessWeek **ONLINE**

Sunday

Making your product a killer in the marketplace—that's what C. Britt Beemer, author of *Predatory Marketing*, knows how to do. **May 10 9 p.m. EDT**

Monday

More and more would-be parents are adopting babies overseas, and Maureen Evans of the Joint Council on International Children's Services has the guidance you need. **May 11 8 p.m. EDT**

Thursday

Who's the best Internet broker? Julio Gomez of Gomez Advisors has a scorecard to help you. **May 14 9 p.m. EDT**

AOL keyword: BW Talk

Transcripts of all conferences are available for downloading from the BW Online area on AOL soon after each event

Index to Companies

This index gives the starting page for a story or feature with a significant reference to a company. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

A

ABB Asea Brown Boveri 50
Adaptec (ADPT) 50
Advanced Micro Devices (AMD) 36
Advanced Tissue Sciences (ATIS) 118
Aeltus Investment Management 28
Alarmguard (AGD) 158
Allianz 42
AlliedSignal (ALD) 111
Allstate Insurance 47
American Airlines (AMR) 168
America Online (AOL) 162
Ameritech (AIT) 158, 164
Apple Computer (AAPL) 47, 168, 204
Arco (ARC) 6
Associates First Capital 168
AST Research 50
AT&T (T) 162, 164
@Home 8, 164
Autoliv 111

B

BancAmerica Robertson Stephens (BAC) 162
BankAmerica (BAC) 154
BASF 50
BDM International 111
Bell Atlantic (BEL) 47
Bernstein (Sanford C.) 164
Black & Decker 168
BMW 40
Boeing (BA) 47, 49, 168
Boyd Gaming 202
BPI Communications 151
Brandywine Fund (BRWIX) 204
Breed Technologies (BDT) 111
Brown Brothers Harriman 164
B.T. Alex. Brown (BT) 111

C

Callaway Golf (ELY) 86, 88
Calvin Klein Cosmetics 130
Candies 130
Chiquita Brands (CQB) 148
Chrysler (C) 40, 42, 43, 210
Citicorp (CCI) 12, 42, 154
CNet 162
Coca-Cola (KO) 148
Compaq Computer (CPQ) 37, 47, 130, 168, 204
CompUSA (CPU) 37, 38
Computer City (TAN) 38
Compagnie Générale des Eaux 42
CompX International (CIX) 158
Connectix 30
Cox Communications (COX) 164

D

Dae Duk Electronics 51
Daewoo 40, 50
Daimler Benz (DAI) 40, 42, 210
DAIS Group 148
Dana 47, 111
Dataquest 38
Dell Computer (DELL) 204

Deutsche Morgan Grenfell 37, 38

Digital Equipment (DEC) 36, 47, 130
Dione House 8
DuPont (DD) 51

E

Eastman Kodak (EK) 12
Echlin 47, 111
Edelman Public Relations Worldwide 37
Eli Lilly (LLY) 44, 47
EMI Group 47
EntreMed (ENMD) 44
Estée Lauder (EL) 158
Excite (XCIT) 162
Exxon (XON) 6, 168, 210

F

Family Golf Centers (FGCI) 204
Ferris Baker Watts 86
Fiat (FIA) 40
Fidelity 158
Fidelity Advisor High-Yield Fund 202
Firefly 162
First Albany 168
First Call 148
Ford (F) 6, 43, 56, 111, 168
Foster Higgins 170
Fuji Photo Film (FUJII) 12

G

Gateway 2000 (GTE) 204
General Electric (GE) 50, 148
General Motors (GM) 6, 40, 43, 50, 168, 210
Gillette (G) 148
Glickenhau 40
Grupo Financiero Bancomer 56

H

Heineken USA 130
Hewlett-Packard (HWP) 38, 50, 130
Hitachi Data Systems (HIT) 47
Honda (HMC) 136
Hyundai 50, 51

I

IBM (IBM) 47
IDT (IDTC) 162
Infoseek (SEEK) 162
Intel (INTC) 30, 36, 50, 168, 210
Intergraph 36
Isonics 127

J

Janssen/Meyers Associates 151
Jupiter Communications 162

K

Kagan (Paul) 164
Key West Securities 151
Kleinwort Benson 136
Kohap 50
Krause's Furniture (KFI) 158
K-TEL International (KTEL) 151

L

Lego 127

Lehman Brothers (LEH) 40, 42, 44, 158
LG 50
Lockheed Martin (LMT) 49
Logovaz 61
Lucent Technologies (LUC) 127
Lycos (LCOS) 162

M

Macromedia 8
Mattel (MAT) 130
McDonald's (MCD) 47
McGraw-Hill (MHP) 40, 207
MCI Communications (MCIC) 162
MediaOne Group 164
Mercedes-Benz (DAI) 43
Mercer 170
Merrill Lynch (MER) 43, 148, 154, 202
Metro Holding 158
Microsoft (MSFT) 30, 34, 36, 37, 38, 64, 148, 162, 204, 210
Midway Airlines 148
Miller Brewing 130
Minolta 12
Mitsubishi 136
Mobile Communications Holdings (BA) 47
Moody's Investors Service (DNB) 136
Morgan (J.P.) (JPM) 64, 154
Morgan Grenfell Capital Management 158
Morgan Stanley Dean Witter (MWD) 136, 158

N

National Semiconductor (NSM) 36
NationsBank (NB) 154
Netscape Communications (NCSP) 30, 34, 37, 162
News Corp. (NWS) 61
Nike (NKE) 130
Nissan 130
Nokia (NOKA) 42
Nong Shim 51
Northeast Investors 202
Novartis 118

O

Onsale (ONSL) 204
Organogenesis 118

P

Pacific 51
Packard Bell 204
PaineWebber (PWJ) 148
Palacio de Hierro 56
PepsiCo (PEP) 54
Pfizer (PFE) 6, 44
Philips Electronics (PHG) 47
Pinnacle Holdings 202
Pittston Brinks (PZB) 158
PolyGram 47
Procter & Gamble (PG) 50
Protection One 158
PSA Peugeot Citroen 40
Putnam Investments 111

Q

Quaker Oats (OAT) 168
Quivira Vineyards 6
Qwest Communications (QWST) 47

R

Random House 67
RealNetworks 151
Renault 40
Ricoh 51

Rockland Growth Fund 21
Royal Dutch/Shell (RD) 6
RSC Energia 49
RSL Communications (RSLCF) 158

S

Safian Investment Research 148
Salomon Smith Barney (TRV) 40, 148, 154, 16
Samsung 50, 210
SAP 42
SBC Communications (SBC) 164
SBC Warburg Dillon Read 158
Schröder Wertheim 111
Seagram (VO) 47, 54
Seligman High-Yield Bond Fund 202
Shimizu 136
Siemens 42, 111
Sindorich 51
Smith & Nephew 118
SmithKline Beecham (SKB) 158
Sony Electronics (SNE) 3
Ssangyong Motor 50
Standard & Poor's DRI 4
Standard & Poor's MMS (MHP) 207
State Street Research 2
Storm Technology (EASY) 158
Stovall/Twenty-First Advisers 148
Suissa Millier Advertising 158
Symbios Logic 50

T

Takata 111
Tandem Computers (TD) 158
Taw Kwang Industrial 5
Taylor Made 88
Tele-Communications (TCOMA) 164
Teledesic 47
Texaco (TX) 168
Texas Instruments (TXI) 158
Tiger Management 158
Top-File 88
Toyota (TOYVO) 42
Travelers Group (TRV) 158
Trumps Atlantic City 21
TRW (TRW) 111
Tyco International (TYC) 158

U

United Bank of Switzerland 158
U S West (USW) 47, 168

V

Viacom (VIA.B) 47
Visio 37
VLSI Technology (VLSI) 158
Volpe Brown Whelan 47
Volvo 40

W

Walt Disney (DIS) 47
Warner-Lambert (WLA) 158
Western Digital (WDC) 158
Western Resources (WR) 158
Wieden & Kennedy 13

Y

Yahoo! (YHOO) 162

Z

Zeneca Group 44
Zona Research 162
Zoom Telephonics (ZO) 158

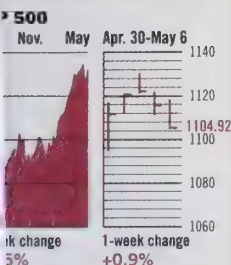
Business Week (ISSN 0007-7135) published weekly, except for one week in January and one in August, by The McGraw-Hill Companies, Inc. Editorial, Circulation, and Advertising Offices: 1221 Avenue of the Americas, New York, N.Y. 10020. U.S. subscriber rate \$54.95/year. Ca \$69/year. Periodicals postage paid at New York, N.Y., and at additional mailing offices. Postage paid at Montreal, P.Q. Canada Post International Publications Mail Product Sales Agreement No. 246484. Postmaster: Send address changes to BUSINESS WEEK, P.O. Box 430, Hightstown, NJ 08520.

For a free trial diskette including 50 free hours on AOL, call 1-800-641-4848 and mention Business Week.



Investment Figures of the Week

STOCKS



SENTIMENTARY

mania continued as spread of a possible deal on Germany's Daimler and Chrysler Corp. The focus on a spate of optimistic reports, searching for inflation. The news was After one report showed that manufacturing was growing, other statistics, such as auto sales, showed growth. The Dow Jones industrial average hit a record on May 4, then fell on a rate hike. Still, the 30-year Treasury fell from 6.07% on Apr. 9.94% on May 6.

U.S. MARKETS

	Latest	% change Week	% change Year
Dow Jones Industrials	9054.7	1.2	27.8
NASDAQ Combined Composite	1856.7	0.0	40.3
S&P MidCap 400	373.3	0.8	40.2
S&P SmallCap 600	200.7	0.7	37.4
S&P SuperComposite 1500	237.1	0.9	36.0

SECTORS

	Latest	% change Week	% change Year
Bloomberg Information Age	348.5	1.0	39.5
S&P Financials	132.2	-0.1	44.2
S&P Utilities	239.1	1.3	24.1
PSE Technology	358.5	0.6	34.1

FOREIGN MARKETS

	Latest	% change Week	% change Year
London (FT-SE 100)	5992.4	2.7	32.1
Frankfurt (DAX)	5229.8	2.4	47.2
Tokyo (NIKKEI 225)	15243.8	-1.0	-24.0
Hong Kong (Hang Seng)	10109.1	-3.5	-25.7
Toronto (TSE 300)	7678.7	0.9	25.6
Mexico City (IPC)	4927.9	-2.0	30.6

FUNDAMENTALS

	Latest	Week ago	Year ago
S&P 500 Dividend Yield	1.40%	1.43%	1.79%
S&P 500 P/E Ratio (Last 12 mos.)	26.7	25.9	20.9
S&P 500 P/E Ratio (Next 12 mos.)*	21.7	21.4	17.1
First Call Earnings Surprise*	2.74%	2.65%	3.52%

TECHNICAL INDICATORS

	Latest	Week ago	Reading
S&P 500 200-day average	989.1	983.4	Positive
Stocks above 200-day average	61.0%	57.0%	Neutral
Options: Put/call ratio	0.41	0.54	Negative
Insiders: Vickers Sell/buy ratio	3.19	3.18	Negative

Data: Bloomberg Financial Markets; *First Call Corp.

BEST-PERFORMING GROUPS

	Last month%	Last 12 months%
Computer Systems	17.4	Specialty Appar. Retailers 113.7
Specialty Appar. Retailers	15.2	Broadcasting 96.8
Paper Containers	9.6	Homebuilding 86.2
Entertainment	9.5	Communications Equip. 75.2
Oil-Well Equipment & Svcs.	9.1	Personal Loans 70.9

WORST-PERFORMING GROUPS

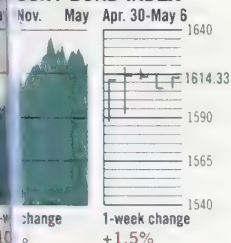
	Last month%	Last 12 months%
Commercial Services	-18.6	Metals -35.0
Invest. Banking/Bkrgr.	-12.1	Shoes -20.0
Food Chains	-10.2	Engineering & Constr. -20.0
Transportation Svcs.	-9.4	Photography/Imaging -13.0
Personal Loans	-8.6	Gold Mining -12.8

BLOOMBERG MONEY FLOW ANALYSIS

Rebound ahead? Stocks with most significant buying on price weakness	Price	1-month change
Citicorp	149 11/16	-30 13/16
Chase Manhattan	137	-10
Oracle	25 13/16	-1 7/16
Telebras-ADR	119 1/2	-5 7/8
Motorola	56 3/16	-3 11/16
AT&T	61 3/16	-4 7/8
Decline ahead? Stocks with most significant selling on price strength	Price	1-month change
Pfizer	111 3/4	8 1/2
Cisco Systems	73 5/8	4 5/8
Dell Computer	87 11/16	22 7/16
Infoseek	32 1/32	11 3/16
Lernout & Hauspie Speech Prod.	58 7/8	8 1/4
Eli Lilly	66 5/16	5 3/16

BEST RATES

TREASURY BOND INDEX



KEY RATES

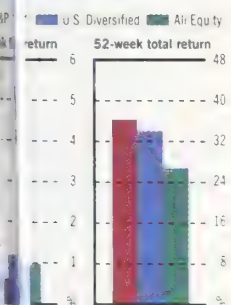
	Latest week%	Week ago%	Year ago%
MONEY MARKET FUNDS	5.09	5.10	5.10
90-DAY TREASURY BILLS	5.09	5.05	5.22
6-MONTH BANK CDS	5.07	5.07	5.23
1-YEAR TREASURY BILLS	5.39	5.48	5.94
10-YEAR TREASURY NOTES	5.64	5.81	6.75
30-YEAR TREASURY BONDS	5.94	6.07	6.96
LONG-TERM AA INDUSTRIALS	6.51	6.66	7.48
LONG-TERM BBB INDUSTRIALS	6.97	7.10	7.93
LONG-TERM AA TELEPHONES	6.78	6.91	7.72

BLOOMBERG MUNI YIELD EQUIVALENTS

Taxable equivalent yields on AAA-rated, tax-exempt municipal bonds, assuming a 31% federal tax rate.

	10-yr. bond Latest week	10-yr. bond Last week	30-yr. bond Latest week	30-yr. bond Last week
GENERAL OBLIGATIONS	4.52%	4.58%	5.11%	5.18%
PERCENT OF TREASURIES	80.00	78.89	86.03	85.36
TAXABLE EQUIVALENT	6.55	6.64	7.41	7.51
INSURED REVENUE BONDS	4.69	4.75	5.30	5.37
PERCENT OF TREASURIES	83.01	81.82	89.23	88.49
TAXABLE EQUIVALENT	6.80	6.88	7.68	7.78

MUTUAL FUNDS



EQUITY FUNDS

Leaders	Four-week total return	%	Laggards	Four-week total return	%
Fidelity Sel. Computers	16.0		Steadman Technology Grth.	-11.9	
Fidelity Sel. Energy Serv.	14.9		Prudent Bear	-10.5	
Northern Technology	11.6		Montgomery Emerg. Asia R	-10.2	
ProFunds UltraOTC Inv.	10.8		Colonial Newport Gr. China A	-8.4	
Pin Oak Aggressive Stock	10.7		Eaton Vance Grthr. China C	-8.1	
Leaders	52-week total return	%	Laggards	52-week total return	%
Munder Micro-Cap Equity Y	84.6		Matthews Korea I	-55.0	
FMI Focus	81.8		Lex. Crosby Sm. Cap Asia	-51.9	
Delaware Aggressive Gr. A	79.5		U.S. Global Investors Gold	-50.3	
Safeco Growth No Load	78.6		Morgan Stan. Asian Grth. C	-49.8	
Weitz Hickory	75.5		Morg. Stan. Inst. Asia Eq. A	-49.7	

EQUITY FUND CATEGORIES

Leaders	Four-week total return	%	Laggards	Four-week total return	%
Technology	6.8		Pacific/Asia ex-Japan	-5.0	
Natural Resources	3.3		Real Estate	-2.1	
Japan	3.2		Utilities	-1.7	
Europe	2.3		Diversified Pacific/Asia	-1.7	
Communications	2.2		Precious Metals	-1.3	
Leaders	52-week total return	%	Laggards	52-week total return	%
Communications	50.0		Pacific/Asia ex-Japan	-35.5	
Financial	47.1		Diversified Pacific/Asia	-26.8	
Small-cap Blend	38.9		Precious Metals	-24.0	
Europe	38.6		Japan	-11.9	
Unaligned	37.7		Diversified Emerging Mkts.	-8.0	

of market close Wednesday, May 6, 1998, unless otherwise indicated. Industry groups 30 companies only. Fundamentals, technical indicators, Bloomberg money flow analy-

sis, and mutual fund returns are as of May 5. For a more detailed explanation, write to us or E-mail figures@businessweek.com. NA=Not available **Vanguard Index 500 Fund

LESSONS FROM OUR FAST-CHANGING WORLD

There are moments in history when a confluence of events brings sudden, piercing clarity to changes that, while deep, are outside the focus of eyes trained on the familiar. This past week was one of them. The surprising prospect of a merger between Daimler Benz and Chrysler, the slow realization that Japan could "go" just like Indonesia or South Korea, the radically shifting regulatory and competitive environments around Microsoft Corp. and Intel Corp. come together to change our perceptions of how the prosperity of recent years was built.

It would be foolish to make hard and fast predictions on the cusp of the 21st century. But recent events challenge the conventional wisdom about the future of globalization: There is now reason to doubt that the global economy is inevitably entering a Pacific Century dominated by Asia. There is now enough information to question whether regional economic groupings, such as NAFTA and the new "Euroland," will fracture the integration of the global economy. Finally, there is a real possibility that the economic cycle may be turning from overcapacity and fierce competition to consolidation and pricing power—as is happening in the airline industry.

The shock of recent events brings these new realities into view:

■ **Capital trumps nationalism.** That is one message that comes from Daimler Benz's talks with Chrysler and General Electric's purchase of a number of Samsung's core businesses. Prosperity in the U.S., panic in Asia, and unemployment in Europe are eroding powerful attitudes toward "national champions" and barriers to foreign ownership. It would have been inconceivable just a short time ago for the U.S. to sell off one of Detroit's Big Three or for Korea to agree to dismantling one of its chief *chaebol*. Capital has become more powerful than nationalism today.

■ **Consolidation trumps competition.** A great merger wave is washing over industry after industry, from banking and finance to pharmaceuticals and autos. Until now, overcapacity defined the world economy, generating intense corporate competition and unleashing deflationary forces keeping prices stable or falling. This may be ending as consolidation begins to dominate, curbing competition and ending downward pressure on prices.

■ **Globalism trumps regionalism.** The end of communism and the expansion of capitalism globally may be unleashing more powerful forces than the urge to unite with neighbors. Paradoxically, just as Europe adopts the euro as a single currency and prepares to integrate itself more fully economically, European corporations are turning away from the Continent to invest billions of dollars in the U.S., Asia, Latin America, and Eastern Europe. Far more direct U.S. corporate investment, per capita, is moving into Europe and Asia than into NAFTA countries. The new economic dynamism of Europe and America may in fact lead to an At-

lantic-centered global economy rather than a Pacific-oriented world for the foreseeable future.

■ **Efficient markets trump savings.** Daimler Benz proves that listing on the New York Stock Exchange and tapping into the soaring value of stock can be far more important than investment and growth than simply piling up savings. Indeed, on a national and international level, it is increasingly clear that the efficiency of capital, not merely the size of pool of savings, is what counts. This is Japan's current dilemma. Wealth doesn't buy you economic growth unless that wealth is used effectively.

■ **Free-market capitalism trumps mercantilism.** Daimler Benz's shift to a transparent accounting system, a move required by the New York Stock Exchange to help the German auto manufacturer make one of a decade's boldest business moves. Korean, Thai, and other Asian companies are all shifting to a more transparent accounting system to attract foreign investment. Their governments are moving toward rule of law rather than crony connections, and markets instead of cronies. Even China is shifting away from Korean-style *chaebol* mercantilism toward the Taiwanese model of individually-owned, competitive companies.

■ **Globalization and high tech trump regulation.** Overcapacity and hypercompetition allow the markets to deal with winners and losers, innovation and change, without any help from government. However, consolidation brings with it problems of monopoly and the proper role of government intervention in the economy. It may be that it is in the high-tech sphere where the issue is now flaring up. But the consolidation issue will soon be highly visible in other industries—airlines, pharmaceuticals, finance, and, yes, eventually maybe in automobiles.

The crucial point is that, at this moment, regulators should not be hasty. They should allow the markets to show their hand. Here the book *Titan: The Life of John D. Rockefeller* by American historian Ron Chernow (excerpted on page 10) is instructive. Over a decade before the U.S. Supreme Court broke up the Standard Oil Trust in 1911, a series of new oil strikes by small, independent riggers in Texas, Oklahoma, California, Kansas, and Illinois provided an opening for other newcomers in the oil business. In 1907, Royal Dutch and Shell joined to give Standard Oil its first major competitor around the world. Royal Dutch/Shell went on to make numerous oil discoveries in Asia and elsewhere. The iron control Standard Oil over the U.S. market began to crumble.

Of course, Rockefeller's Standard Oil monopoly didn't last some three decades. Microsoft and Intel have been doing it for only one. Should the government move to cap Microsoft's rule now? Or should Washington wait for the inevitable change in technology and the inevitable erosion of Microsoft's power?

New questions for a new era where conventional wisdom no longer rules.

You only get 365 of these each year.

Imagine making the most
of every single day.



Mercury Sable

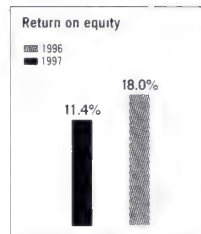
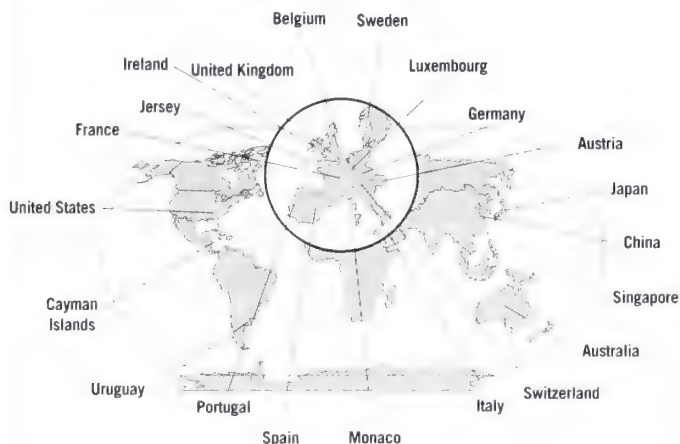
Imagine yourself in a Mercury



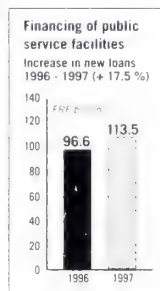
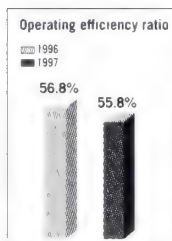
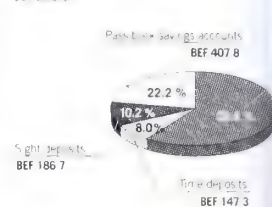
You pack a lot into your day. So we pack a lot of helpful ideas into every Mercury. Like Sable's 60/40 split-fold rear seat and available front flip-fold center console. They give you extra flexibility carrying passengers and gear. At Mercury we design cars to keep up with your busy schedule. Maybe that schedule should include a test drive. Call 1 800 446-8888 or visit www.mercuryvehicles.com

To help you get to know us, a picture is truly often worth a thousand words

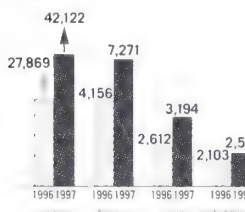
Dexia around the world



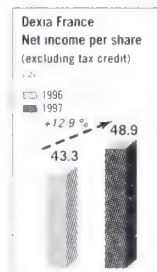
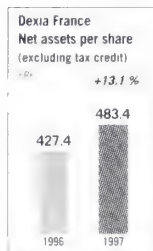
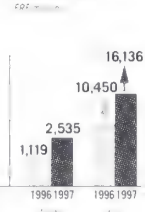
Commercial banking - Breakdown of funds from retail banking customers (1997)



Financing of public service facilities International business

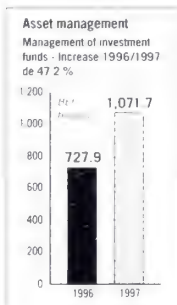
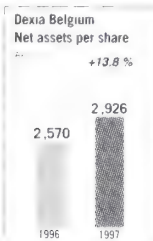
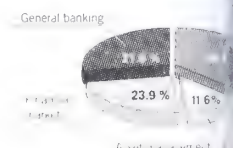


Business at companies accounted for by the equity method

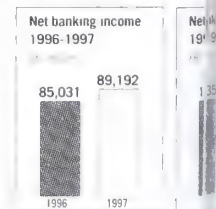
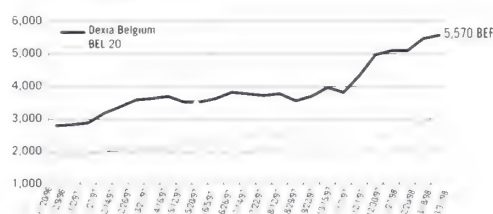


Dexia, the European bank created by the merger of Cr d Agricole de France and Cr dit Communal de Belgique, reported total assets of 185 billion BEF.

Breakdown of 1997 net income



Dexia Belgium share price and the BEL 20 stock market index 11/20/96 - 03/31/98



making HWAB

The Net
and new
investors
are shaking
company

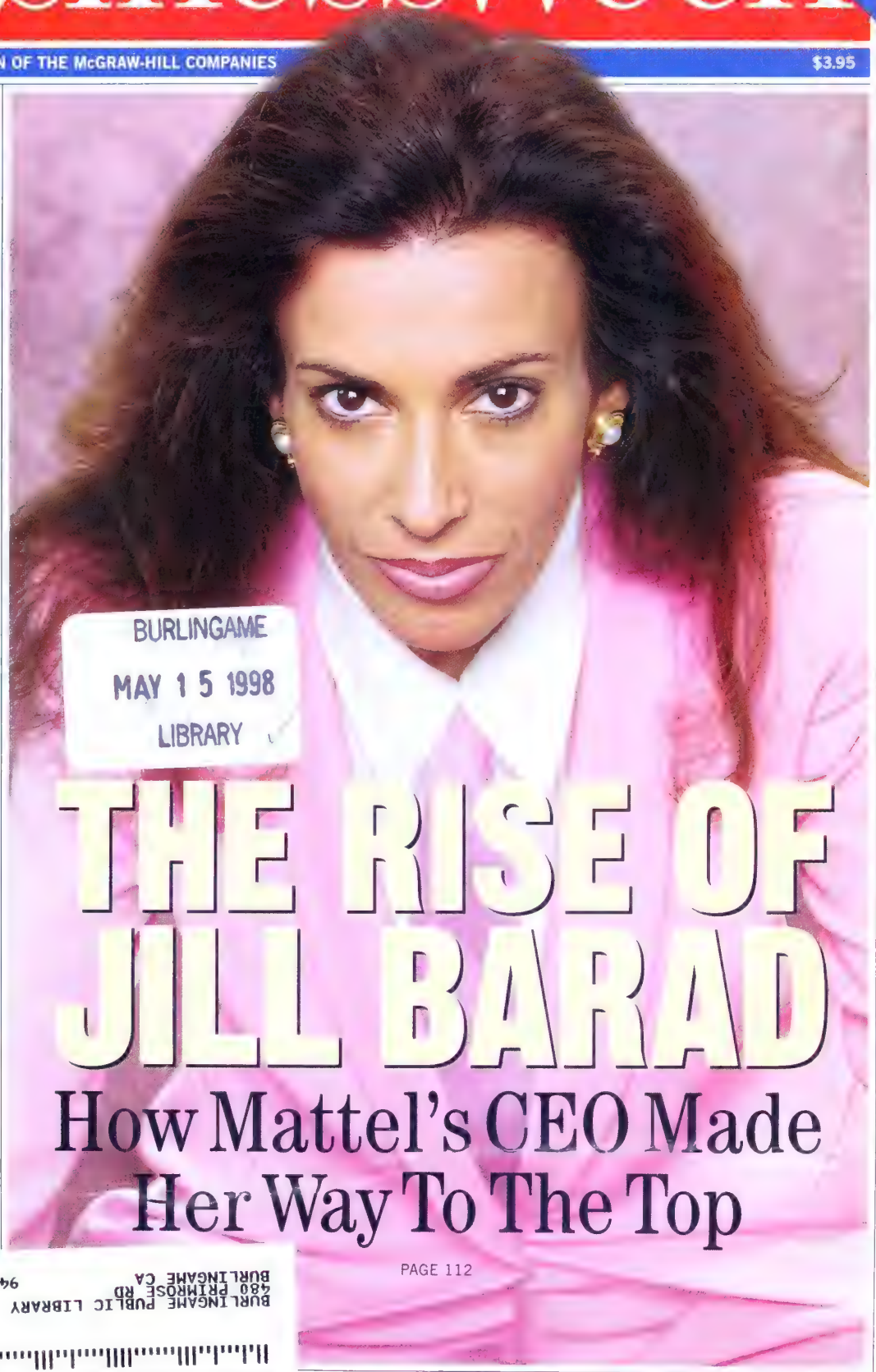
PLE
back
I?



e Best ODUCT SIGN



l Report:
ear's winners



BURLINGAME
MAY 1 5 1998
LIBRARY

THE RISE OF JILL BARAD

How Mattel's CEO Made Her Way To The Top

PAGE 112

94010-4010
BURLINGAME PUBLIC LIBRARY
480 PRIMROSE RD
BURLINGAME CA
#BXBGDD***5-DIGIT
10602 1058111600#JAN99 102 0239
94010

TAXI

Wouldn't You
Rather Manage
Your PCs
Without Traveling
Across Town?



©1998 Hewlett-Packard Company. Pentium, Pentium II, and MMX are registered trademarks and MMX is a trademark of Intel Corporation. Microsoft and Windows 95 are registered trademarks of Microsoft Corporation. ©1998 Hewlett-Packard Company. PP4988



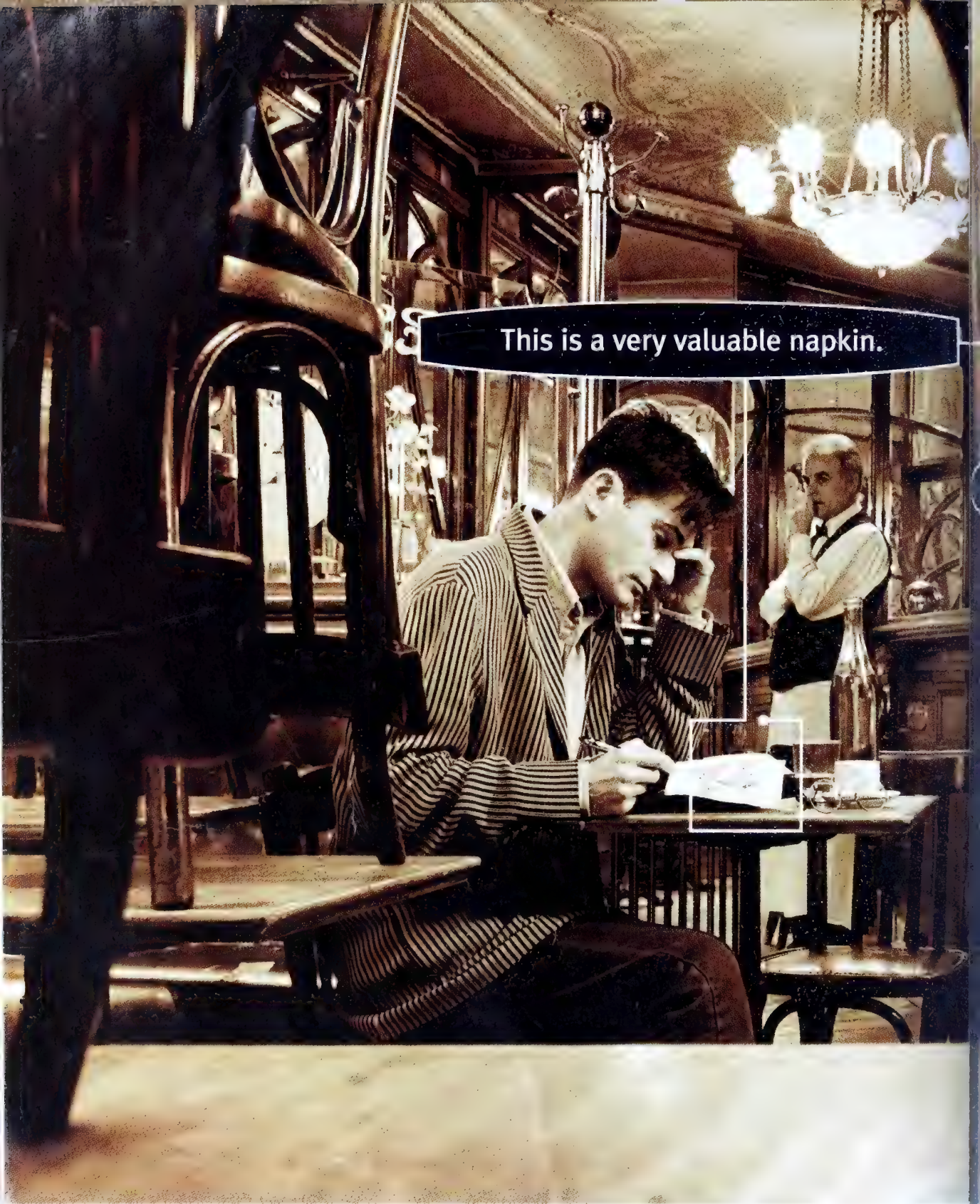
HP Vectra VL with Windows NT starting at \$1,309*

The HP Vectra with Windows NT® Workstation offers a superior desktop management solution by providing remote management, troubleshooting tools and more. Armed with HP TopTools running on Windows NT, your department can instantly track where your company's PCs are, which software is installed and whose machines are in need of immediate attention — whether those PCs are from different suppliers, in separate buildings or in altogether different cities. In addition, the affordable HP Vectra with Windows NT offers reliability, scalability, security and, of course, performance. What else would you expect from the fastest growing¹ PC supplier? Managing your PCs just got easier. So remain seated and visit us at www.hp.com/go/vectra/wnt.

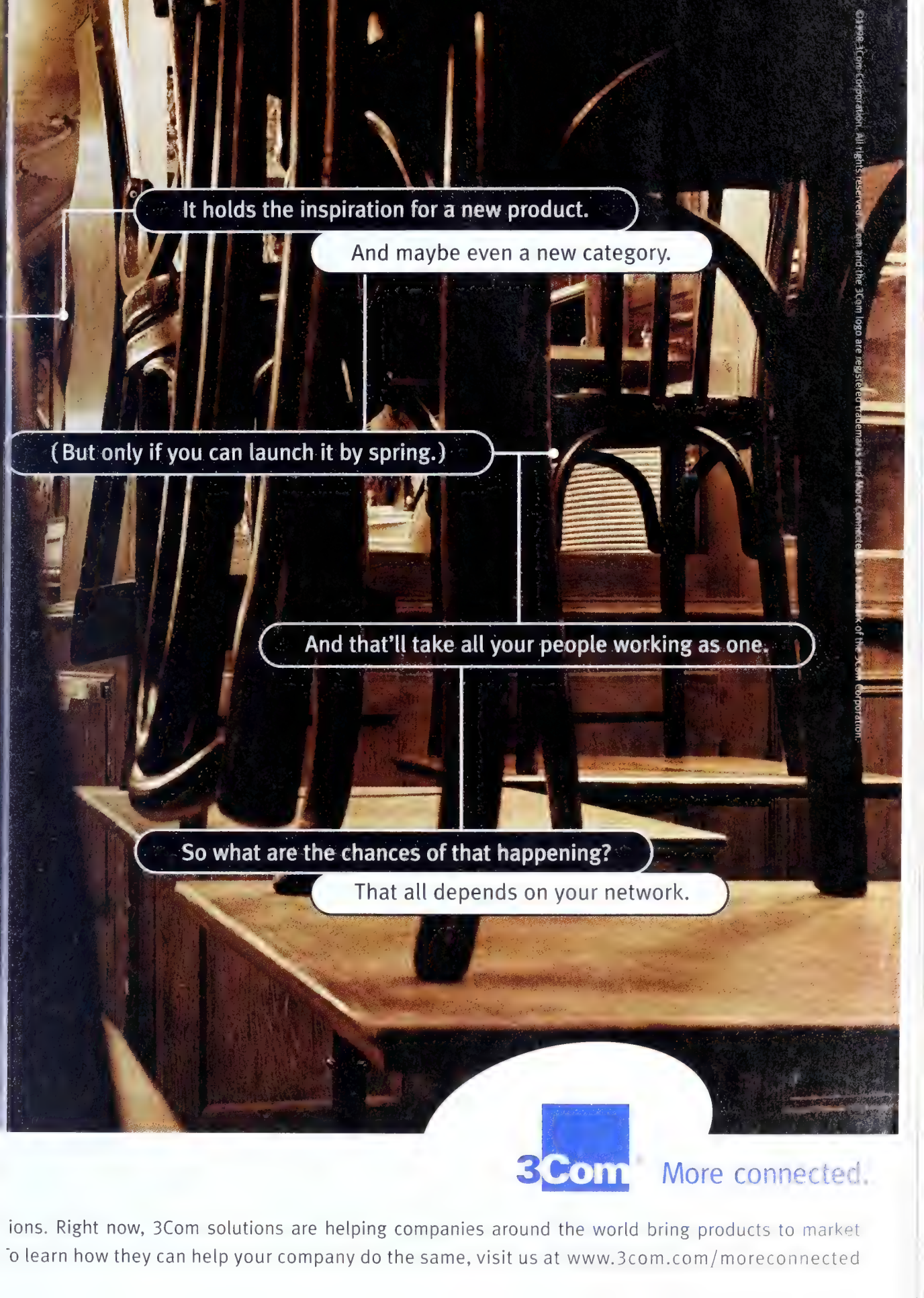


HEWLETT
PACKARD

Expanding Possibilities



To capitalize on new opportunities, all your departments need to work together seamlessly. That's why 3 networks enable digital document sharing, desktop video, real-time collaboration, and other powerful netw



It holds the inspiration for a new product.

And maybe even a new category.

(But only if you can launch it by spring.)

And that'll take all your people working as one.

So what are the chances of that happening?

That all depends on your network.

3Com More connected.

© 2004 3Com Corporation. All rights reserved. 3com and the 3Com logo are registered trademarks and More Connected is a trademark of the 3Com Corporation.

ions. Right now, 3Com solutions are helping companies around the world bring products to market
to learn how they can help your company do the same, visit us at www.3com.com/moreconnected

COVER STORY

THE RISE OF JILL BARAD

Don't let the doll fool you: Mattel's hard-charging CEO is no Barbie **page 112**

BusinessWeek

MAY 25, 1998

DESIGN AWARDS

1998 winners range from a digital zoom camera to an easy land-mine finder **page 78**



Cover Story

112 THE RISE OF MATTEL'S JILL BARAD

It's no small irony that the most powerful and highest-paid woman in Corporate America credits her success to selling an icon that women's groups have been denouncing as sexist and demeaning for decades. A fierce competitor with an unerring eye for pop culture, she has helped build Mattel into a \$4.8 billion powerhouse. Along the way, the flamboyant CEO has broken stereotypes about corporate success

119 IF YOU CAN'T BEAT HER, JOIN HER

Bruce Stein has gone from archival to Barad's No. 2 exec—and he couldn't be happier

News: Analysis & Commentary

32 THE ECONOMY'S SUPERHERO

High tech isn't just powering growth—it's also zapping inflation. But worker shortages loom

34 COMMENTARY: ANTITRUST

It's time the White House came up with a big-think policy—and gave Justice the cash to keep on top of merger mania

36 A BREAK IN THE TELECOM LOGJAM?

SBC's Ameritech bid lights a fire under the FCC and Congress—and may finally true competition to the industry

38 LABOR'S TELECOM TACTIC

The Communications Workers may have devised a way to win new union recruits at merging phone titans

40 COMMENTARY: TACKLING MICROSOFT

In its upcoming antitrust suit, the Justice Dept. is facing a marathon. Who's got the edge?

42 THE PEPSI LEGAL CHALLENGE

The No. 2 soft-drink maker, stymied in the cola wars, is turning to the courts for help

44 GRAINS THAT TASTE LIKE MEAT?

Monsanto and DuPont are pouring billions into "life sciences"—the next wave in genetically engineered foods

46 IN BUSINESS THIS WEEK

International Business

50 INDIA

Its underground nuclear tests may result in more economic fallout than its rulers bargained for

51 COMMENTARY: INDIA

What the nation needs to gain world prestige it seeks is weapons, not bombs

52 NORTHERN IRELAND

Business investment is flowing in the province—and it may help make peace accords stick

53 INTERNATIONAL OUTLOOK

Suharto is playing a risky game to divide and conquer with his rivals in the military

Economic Analysis

22 ECONOMIC VIEWPOINT

Roberts: Public discourse is increasingly distorted as economic facts bow to popular need for emotional validation

26 ECONOMIC TRENDS

An economist sees a link between sales and higher profits, Cleveland bank has a different take on it. Illegal cigarettes could follow

29 BUSINESS OUTLOOK

U.S.: Greenspan may have a firm grip on his hands at the next Fed meeting. Denmark: A strike against the

**KEOVER
SCHWAB**
Net and
ce-hungry
stors are
ing it up



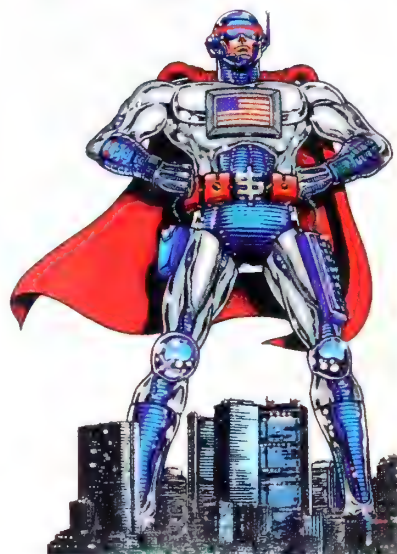
MOVE IT
SBC pushes
the FCC to
untangle
the telecom
mess page 36



**GROWTH'S
BODYGUARD**
Not only is
high tech
driving this
expansion,
it's curbing
inflation, too

page 42

BIG MAC
Is a stylish new
machine enough
to make Apple
shine? page 56



K 'N' TRADE
okers: Do you get
you pay for? page 130

ernment

INGTON OUTLOOK

olicans are so tired of Treasury
ary Bob Rubin, they're calling
e Chicken Little of Washington

rmation Technology

VOLOGY & YOU

P LaserJet 3100 is a neat
nation of fax, printer, scanner, and
—and all for less than \$700

IS: A BIGGER PIECE OF THE PIE?

omputer maker is pinning its
ack hopes on stylish—and cheap—
achines. The only problem: Will
be enough software?

K WITH STEVE JOBS

's interim CEO speaks out about
ompany's renewed momentum, and
he iMac came to be

nce & Technology

RILLA' JOLTS THE GENE BUSINESS

sleuth Craig Venter and
n-Elmer have teamed up to crack
man genetic code

74 DEVELOPMENTS TO WATCH

A bright forecast for genetic
engineering, and a promising
development in gene delivery

Sports Business

77 CRUNCH TIME FOR THE NBA

Why push may come to shove
during a long, hot summer of collective
bargaining

Annual Design Awards

78 WINNERS

This year's Industrial Design Excellence
Awards showcase the paradigm shift in
new products: toward friendlier, more
mobile, single-task consumer appliances,
often having to do with the Net. BW
looks at the best in a remarkable year

Legal Affairs

111 A MEDICINE FOR WEB PATENTS

If someone has patented software you
know belongs to you, you can save big
legal fees with an appeal on the Internet

Finance

120 INSIDE WALL STREET

122 REMAKING SCHWAB

As commissions fall and investors crave
more advice, the nation's largest
discount broker is becoming more
service-oriented and betting on the Web

142 INVESTMENT FIGURES OF THE WEEK

Personal Business

130 INVESTING: Online brokers

SMART MONEY: E-trader stocks

IPOS: The bottom fishing is good

Features

6 UP FRONT

12 READERS REPORT

17 BOOKS

Schor: *The Overspent American*

139 BUSINESS WEEK INDEX

140 INDEX TO COMPANIES

142 EDITORIALS

Make this merger an opportunity

Send me your skilled workers

The 11th hour in Asia

BUSINESS WEEK ONLINE: Internet: www.businessweek.com America Online: Keyword: BW

Up Front

EDITED BY ROBERT McNATT

SLUGFESTS

A BAD SMELL AT WASTE MANAGEMENT



LONG HAUL: Truckloads of lawsuits

THE \$3.5 BILLION WRITE-OFF IN February that contributed to the pending sale of Waste Management to USA Waste Services has resulted in in-

vestigations by the Securities & Exchange Commission and by Waste Management itself. Now, people familiar with the internal investigation say that its findings could pose problems for Waste's former managers and auditor and lead to a settlement of a truckload of shareholder lawsuits.

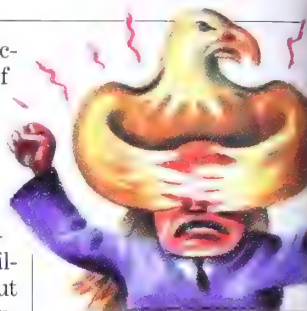
The internal probe, which is being closely monitored by the SEC, is expected to wind up by mid-June with no findings of fraud, says a source familiar with it. But certain former top executives and auditor Arthur Andersen are likely to be blasted for

TALK SHOW "Yesterday, I thought about him. Today, I think about him at all."

—Russian President Boris Yeltsin, about former Soviet leader Mikhail Gorbachev, during an online chat

aggressive accounting practices that hid the scope of the business's deterioration.

USA and Waste have also come up with a ballpark figure to settle the shareholder suits and resolve any SEC action, says a USA Waste insider. It's at least \$100 million, say several bankers. But a source familiar with the investigation said that Waste's board may consider recouping some costs from Andersen, and past executives, including former Waste Chairman and cofounder Dean Buntrock, putting them on the hook for millions. Neither Buntrock, Andersen, the head of USA, John Drury, or his counterpart at Waste, Robert Miller, would comment. *Richard A. Melcher*



LITIGATION NATION

LOCKHEED'S PAPER CHASE

EVEN BY WASHINGTON STANDARDS, paper-shuffling in Lockheed Martin merger reached a curious turn. Not that the Justice Dept. won't give Lockheed Martin certain documents it has mined in deciding to buy the deal with North Grumman. The odd thing is one of the documents came from Lockheed Martin in first place.

Why would the government refuse to hand Lockheed Martin's own material—standard procedural antitrust cases? Well, Justice says its own lawyers have written notes on the document, making the material privileged. That argument didn't go over very well in pretrial skirmishing. Fed Judge Emmet Sullivan cautions Justice's list of the disputed papers "woefully abysmal." The feds could easily delete their notes, he said. Meanwhile, because the feds didn't specify which of the thousands of company documents they are withholding, Lockheed Martin was left in a dark.

Justice blames the problem on human error and tight deadlines. But one outside lawyer says the department is in a bind because it expects a settlement, not a trial. At any rate, on May 13, some of the papers were to be delivered to the judge, who will soon decide what must be released. *Stan C.*

FWAY PATROL

MICROSOFT STUBS ITS TOE

MICROSOFT HAS AMASSED A \$12 billion pile of cash, but even a software giant needs to make money on the Web. Microsoft's Sidewalk, a chain of local arts and entertainment sites, has lost millions since its May, 1997, startup. That has left company bean-counters less than amused.

Now Microsoft is trying to repave Sidewalk with gold. The plan: turn it into a network of E-commerce sites,

selling everything from appliances and computers to cars and air travel.

The new Sidewalk rolls out



this fall in 41 top ad markets, including Los Angeles, Chicago, and Miami. Nine existing city sites will get makeovers to accent E-commerce, says

Matt Kursh, Sidewalk's general manager. Viewers will be able to buy from local retailers, online shops, or direct marketers. Microsoft will make money from ads and transaction fees. Says Kursh: "We're about consumers and advertisers coming together when the time is right—when consumers are ready to buy." Bill Bass of Forrester Research lauds the change: "Sidewalk wasn't stupid. But clearly it didn't work." And it cost Microsoft \$40 million to find out. *Steve Hamm*

THE LIST THE TYCOONS TEE OFF

In a survey of 110 CEOs by *Golf Digest*, 85% said they mixed golf and business. Some of them can certainly cut a deal. But how're their swings? Here are the five best and worst.

The richest CEOs, however, could use a lesson. Warren Buffett's adjusted handicap was 22. Bill Gates's was 23.9.

BUFFETT: Tiger Woods is not trembling

THE BEST

NAME	COMPANY	HANDICAP*
SCOTT McNEALY	SUN MICROSYSTEMS	3.2
JACK WELCH	GENERAL ELECTRIC	3.8
WILLIAM DILLARD II	DILLARD'S	4.8
ROBERT WALTER	CARDINAL HEALTH	5.6
THOMAS O'BRIEN	PNC BANK	7.1

*Handicaps adjusted for course par and difficulty

THE WORST

NAME	COMPANY	HANDICAP*
ROBERT EATON	CHRYSLER	25.1
VICTOR LUND	AMERICAN STORES	26.0
ROGER STONE	STONE CONTAINER	26.0
PETER BIJUR	TEXACO	27.1
WILLIAM STEERE	PFIZER	34.0

DATA: GOLF DIGEST





n a country
of 250
million, is it *possible*
to have a
personal relationship
with *everyone*?

Whether you want to talk with an audience on a nationwide scale, a microtarget of just hundreds, or anything in between, nothing can match the one-to-one communications power of Direct Mail.

Because Direct Mail lets you speak with each and every one of your best prospects. It lets you establish an ongoing dialogue with them. So you can communicate the very relevant, very individualized benefits of your brand.

Your customers get to know you, and you can respond to their needs. This special relationship builds loyalty and repeat sales. Bottom line, your bottom line looks even better.

For a free kit on how Direct Mail can help build business, call

1-800-THE-USPS, ext. 2044.



Up Front

AFTERLIVES

NO SLAM DUNK FOR DR. J'S CARS



ERVING: Going through hoops

YOU MIGHT BE SURPRISED TO find former basketball star Julius Erving in the pits during races on the Busch Series Grand National Division circuit, the minor leagues of stock-car racing. Don't be. Dr. J is co-owner of the first black-owned racing team in the National Association for Stock Car Auto Racing (NASCAR). But making it in a mainly white

Southern sport, he says, is proving a rough ride. For starters, it took Erving and former NFL running back Joe Washington—one of four other owners of the team—six months to get Dr. Pepper to back the team, with some \$2.5 million. They still seek a sponsor with \$8 million for a team in the Winston Cup series, the sport's big leagues.

Why bother? Erving, an exec with the NBA's Orlando Magic, grew up near a racetrack in New York and likes the sport. But his past successes haven't transferred well. "I've been treated like one of the boys," he says, "but my notoriety is not enhancing my role as a business person. If anything, it's a bit of a distraction." Money woes aren't all. The Washington/Erving Motorsports team has a mediocre record. What to do? Erving may start a camp to develop minority drivers. *Brad Wolverton*

PAPER PLAYS

STOCK TRADING CAN BE A NASTY HABIT

IT'S A STAPLE OF PERSONAL-finance advice: Buy and hold, because trading the stock market is a sucker's bet. But does anybody know just how badly those quick-draw traders are shooting themselves in the feet?

Thanks to a just released study by Brad Barber and Terrance Odean of the University of California at Davis, we now know. And the answer is that it's an ugly, bloody mess. The researchers looked at a large, unnamed discount brokerage firm's trading records for 78,000

households from February, 1991, through December, 1996. They found that after commissions and other transaction costs, the average household saw an annual average total return of 15.3%.

But the 20% of households classified as frequent traders—more than 48 trades per year—fared miserably, with an annual average net of just 10%. They gave up more than a third of what they might have made.

The paper's bottom line: "Trading is hazardous to your wealth." It's a warning that probably should be printed on the side of every new brokerage account kit. Ignore it, and risk turning a thundering bull market into your own meandering cattle drive. *Robert Barker*

Annual average total returns	
TYPICAL INVESTORS	15.3%
FREQUENT TRADERS	10%

DRAWN & QUARTERED



OVER THERE

HOW MANY EUROS FOR THAT FROMAGE?

THE CREATION OF EUROPE'S single currency may have economists singing hosannas. But some retailers worry that shoppers will be less than thrilled. Says Michel Pailard, euro project director at Auchan, France's second-largest retailer: "Customers are frightened that we'll use the euro to cheat them."

How so? Consider one round of cheese, for example, priced at 10 francs, another at 8 francs. The 20% difference is clear. But with one euro generally worth more than one unit of local currency, that price difference seems smaller. The cheeses now go for 1.66 euros and 1.33 euros. That perception may confuse or anger consumers, even

with prices posted in euro and local currencies. Says Pailard: "People don't pay attention after the decimal point."

So Auchan plans major blitzes to remind consumers that value is value, no matter the currency. Already, store near Belgium lures shoppers avoiding Belgium



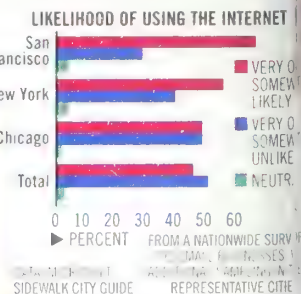
SHOPPING: Euro-confusion

sales tax. After the euro launched, Auchan wants more of them. With other stores thinking similarly, consumers may benefit in a euro-inspired price war. *William Echik*

THE BIG PICTURE

HOW LIKELY ARE SMALL BUSINESSES TO BYTE?

Although 60% of small businesses do not currently use the Internet as a marketing tool, nearly half said they were likely—and 22% said very likely—to do so. Trouble is, more than 70% didn't know where to start.



FOOTNOTES Skills top managers say job applicants lack: foreign language, 43%; technology, 15%



majority

Toyota Camry. #1 selling car in America.*

rules.



C A M R Y



TOYOTA | everyday

1800-GO-TOYOTA ♦ www.toyota.com

©1998 Toyota Motor Sales, U.S.A., Inc. Buckle Up! Do it for those who love you. *Based on calendar year 1997 unit sales.



DO STRANGERS WA



UNPACK YOUR LAPTOP ON THE AIRPLANE?

INTRODUCING THE IBM THINKPAD 600

The innovative covers that protect its docking port to the way the keys feel when you press them. From the designed to integrate the latest technologies to the way it makes people look twice. There's something about a ThinkPad® notebook. And the new ThinkPad 600 is no different. It's thin, light, powerful. It's got right, high-resolution screen. And it can accommodate a CD-ROM. All combining to make it more than what you need, but a tool you want. See it at www.ibm.com/thinkpad600 or call 1 800 426 7255, ext. 4771.



6 MHz¹ Pentium® II processor / Up to 4GB² Hard Drive / Up to 13.3" display / About 5 lbs³ / 1.4" thin⁴ / From \$2,799⁵

 e-business tools

pure products or products that are
 ived as commodities will feel the
 est price pressure. Differentiated
 ets or products in short supply are
 rs able to resist these pressures.
 the Internet and other computer
 ologies present opportunities for
 rs and lower prices to customers,
 will not lead to rapid change for
 easons: First, pricing is not done in
 um but is one element of a com-
 interrelated business system.

ond, the links between the price
 by the customer and vendor are
 to respond to change. Even if
 s change dynamically, sales-com-
 tion plans do not. Even when cus-
 rs minimize the role of resellers to
 etter prices, their spending changes
 y, since they must still meet the
 for factory service and support.
 quickly will companies replace part
 ir purchasing staff with a bunch of
 are robots looking for the best
 Even the best and the brightest
 time to adapt their business mod-
 new pricing paradigms.

James H. Geisman
 Wayland, Mass.

VOCATIONAL SCHOOLS GOOD MOTIVES

Regarding "Vocational School for
 al?" (The Corporation, May 4), I
 quoted by the author, who received
 ort of an evaluation I conducted in
 of the Alexandria, Va., campus of
 utor Learning Center Inc. There
 several points about which your
 rs should be aware. First, the vo-
 al school industry is highly regu-
 Schools are required to comply
 separate sets of standards imposed
 them by the state education de-
 nents, the accrediting commissions,
 the federal Dept. of Education. Often
 standards are inconsistent, and
 imes they are even contradictory.
 e a few areas where the schools are
 a compliance and then imply that
 could artificially inflate revenues" is
 ir to the schools.

ond, my citation was for a failure
 e school to adhere to an admission
 ard for just one of the programs
 he school offers and which was
 and beyond that required by any
 regulatory agencies. The students
 ted to the program were not un-
 ted in terms of the minimum edu-
 al background required by those
 atory agencies. There was simply
 cumentation that they possessed
 tra qualifications that CLC required
 m.

d third, the CLC asked me to ex-
 the Alexandria school. The fact
 he company hired an outside con-

sultant to conduct a critical examina-
 tion of its schools to help them correct
 any areas of non-compliance speaks to
 CLC's motives.

John Rogers
 Educational Consulting Services
 Manassas, Va.

CASH FLOWS ARE THE RIGHT WAY TO VALUE A BUSINESS

In "Mergers: Crack down on stupid
 accounting tricks" (News: Analysis &

Commentary, May 4), you indicate buy-
 ers hate goodwill because it must be
 amortized. Buyers may also dislike
 goodwill because it creates a vague, dif-
 ficult-to-evaluate asset. Although good-
 will must be amortized, it is in many
 cases an asset that should not diminish
 in value over time and, in fact, may ap-
 preciate under good management.

When two historically similar busi-
 nesses are merged using purchase ac-
 counting, the result may be a freak:
 one-half historical accounting, one-half

WillTales



*"You're right, Bob, he does look a bit like me.
 However, he has no idea what the Williams
 Bandwidth Advantage is."*

that **Williams** network 
 11,000 fiber miles laid, lit and ready to ride.

Sit. Stay Visit www.willtales.com, or call 1-800-WILLIAMS, for doggedly superior telecom solutions.

©1998 The Williams Companies, Inc.



Travel the world smoothly on all six Star Alliance™ airlines — United Airlines, Air Canada, Lufthansa, SAS, THAI and Varig.

Apply mileage points from qualified flights on any of the six airlines toward your overall frequent flyer status.

Indulge yourself in any of our partners' lounges. More than 190 around the world are open to eligible First and Business Class travelers and to Star Alliance Gold members.

Redeem miles for reward travel on any of our six carriers, giving you more than 600 destinations around the world to choose from.

Enjoy Priority Check-In on all of our partners' flights. Regardless of the airline you're flying, a priority counter awaits Star Alliance Gold members.

Be more confident when trying to fly a sold-out flight. Priority Wait-List and Priority Standby* put Gold and Silver members toward the top of the list on any Star Alliance flight.

www.star-alliance.com

*Where allowed by law

Priority status on six airlines.
Liberating isn't it?



STAR ALLIANCE 

The airline network for Earth.



Quality time is not a myth.



GORDON'S

The world's most popular gin
A simple pleasure since 1769

Drink smart. Be responsible.

Gordon's Dry Gin, 40% Alc./Vol. 100% Grain Neutral Spirits.
946 Unionville, N.Y. 11761, Stamford, CT

Readers Report

current value. What can the resulting earnings be compared with? Virtually nothing. For smaller companies, the effort required to track purchase accounting may be quite onerous, since they may still be required to maintain historical accounting records for local and state tax reasons. Purchase accounting may also create problems relating to a variety of contracts, leases, and agreements.

Yes, pooling accounting can be abused, but purchase accounting may lead to equally great abuses. Pooling is often chosen for very legitimate reasons that are not "stupid accounting tricks." Ultimately, businesses should be valued based on their cash flows, ignoring distortions created by either accounting method.

Dale Schmid
Santa Rosa, Calif.

PROTECTING UNIONS' FREEDOM IS GOOD BUSINESS

The California initiative procedure can be a magical tool for self-government ("A shot in the foot?" News: Analysis & Commentary, May 4). When politicians are too meek to assert the rights of citizens, sometimes we have to stand up and make the law ourselves.

I have been a union member for 30 years, powerless to stop my union from giving my money to candidates and causes I did not support. If my union wants to spend members' money on politics, Proposition 226 simply requires them to ask first. Protecting the political freedom of union members is more than just, it is good business.

Robert Bowen
Woodland Hills, Calif.

WHY GTE IS FIGHTING AN MCI-WORLDCOM MERGER

In "Will WorldCom have to slim down?" (Up Front, May 11), you correctly note that "if [MCI] sells off a chunk of its network, rivals such as GTE would be eager to gobble up the cast-offs." That fact, finally brought to light, will help answer why GTE has mounted such an aggressive and costly campaign to bring down MCI's merger with WorldCom.

Since it lost its bid for our company late last year, GTE has invested considerable resources to stop the MCI-WorldCom merger. Not only has GTE bankrolled efforts by the Communications Workers of America to discredit our merger but it has also hired a Washington public relations firm to mount a disinformation campaign that

includes creating false grassroots coalitions to oppose the merger.

What is motivating GTE to stop the merger? GTE has invested heavily building its Internet business and views the combined MCI-WorldCom as a threat to its expansion plans. With revenues about \$172 million, the Internet business at GTE is larger than at either AT&T or MCI. Clearly, GTE wants to protect substantial investment in the Internet.

Also, GTE is afraid that a combined MCI-WorldCom would give GTE formidable competition in its local monopoly phone markets and give its customers a real choice for local service.

Timothy F. Price

President

MCI Communications Corp.

Washington

Editor's note: GTE filed suit in federal court on May 7 to block the MCI-WorldCom merger.

FINDING US ONLINE

BusinessWeek **ONLINE**

The full text of Business Week, the Business Week Daily Briefing, and seven years of BW archives are available on the World Wide Web at:

www.businessweek.com

and on America Online at Keyword: BW.

To sign up for BW on AOL, call (800) 641-4848 and mention Business Week.

maven

Shopping for computer equipment? Visit Maven, an online Computer Buying Guide, for continuously updated ratings and price information. Go to Keyword: Maven on America Online, or to the World Wide Web at:

www.maven.businessweek.com

HOW TO REACH BUSINESS WEEK

LETTERS FOR READERS REPORT

All letters must include an address and daytime and evening phone numbers. We reserve the right to edit letters for clarity and space and to use them in all electronic and print editions.

Mail: Business Week, 1221 Avenue of the Americas, 39th floor, New York, NY 10020

Fax: (212) 512-6458

Internet: bwreader@mgm.com

America Online: readersbw

SUBSCRIBER SERVICES

For individual subscriptions, corporate subscriptions, renewals, changes or problems, and single copies.

Phone: (800) 635-1200 or (609) 426-7500

Fax: (609) 426-7623.

Internet: bwhelp@mcgraw-hill.com

REPRINTS AND COPYRIGHT PERMISSIONS

For custom reprints (minimum order of 500) contact (609) 426-5494

Before quoting or reusing editorial material.

Phone: (212) 512-4801

Fax: (212) 512-4938

OVERSPENT AMERICAN
 ing, Downshifting, and the New Consumer
 et B. Schor
 Books • 253pp • \$25

KEEPING UP WITH THE JONESES KILLING US?

while back, I interviewed a woman in western Massachusetts who was, inarguably, strapped. She had lost her \$18,000-a-year job seven months earlier, and her live-in friend didn't earn much. Health insurance for her and her daughters was out of reach: "I just punt and hope for the best," she said. And yet, in her apartment, I beheld the trappings of middle-class comfort. The big-screen TV and VCR. The crush of name-brand toys. And outside, the fairly new Town Car—for which she was several months behind on payments.

The tableau was at once absurd and not altogether surprising. We after all, a nation of accomplished consumers, slaves to advertising and symbolism. The conspicuous fruits of consumption shout out our aspirations and insecurities.

It is the phenomenon Juliet Schor writes in *The Overspent American*. A Harvard University economist, she delivered what amounts to a sequel to her breakthrough 1992 study, *The Worked American*. That book, justly embraced as gospel by the humanities-intelligentsia, expertly documented the time squeeze faced by income families as hours on the job increased. Americans' leisure time, she demonstrated, was vanishing.

Why are we killing ourselves this way? In large part, Schor argues now, we work so that we might spend. Americans are engaged in an intensification of shopping spree rooted in competitive emulation—keeping up with the Joneses on a manic scale. "We are devouring ourselves," she writes, "in pursuit of a consumption goal that is utterly unachievable."

Profligate consumerism, of course, has existed as long as envy and avarice. But at the pharaohs' pyramids. And now, Schor's evidence of its current

manifestation will seem blatantly familiar to anyone with a TV, a car, or kids. (Example: "The coolest [teen] brands are often fashion brands or 'badge items' that kids can wear and relay a message about themselves." Like, duh.)

But Schor argues that, in the late 20th century, competitive spending has intensified insidiously. In part, that's because the gap between rich and poor has widened, creating a highly visible class of superwealthy who set outrageous spending precedents for everyone else. At the same time, TV ads, not to mention the programs they punctuate, have brought images of Lexuses and Rolaxes, directed at the rich, to the gazes of average Joes. So designer cosmetics are now the middle-class norm, and two cars in the driveway (one a sport-ute, naturally) a necessity.

This theory is difficult to confirm. Like much of Schor's book, it relies on logical leaps and readers' gut-instinct acceptance. True, per capita spending has swelled for decades, but at a lower rate now than in the 1960s, before two-income families proliferated. Moreover, when asked in a Roper poll how much income a family of four needs to live "in reasonable comfort," Americans' responses since 1978 have trailed inflation. In any case, Schor never proves a connection to the wealth gap. Likewise, she can't show that the number of "downshifters"—those who escape the trend by working and buying less—is any greater than a generation ago. It's unfortunate: The study lacks the empirical validation that made *The Worked American* so compelling.

The Overspent American is strongest when it employs imaginative economic

analysis to show us the inner workings of our materialism. There is, for example, Schor's examination of personal savings from her survey of 834 workers at "Telecom," a large, Southern telecommunications company.

Employees were asked to identify a group of "Joneses"—people in their lives who were a primary reference for social comparison. Then they were asked to compare their financial status with that of the Joneses. On average, people who said they were worse off saved \$2,953 a year less than those who picked a reference group of similar means. Trying to keep up with Joneses richer than ourselves, in other words, knocks spending out of whack.

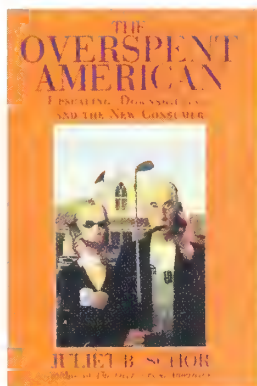
Other factors have surprising effects on savings rates, Schor finds. Better-educated respondents tended to save less. (She guesses that such folks are more status-oriented, but admits "it's hard to say why.") So did ardent TV watchers. Each hour Telecom workers spent glued to the tube reduced annual savings by \$208. (Schor's unsubstantiated interpretation: "What we see on TV inflates our sense of what's normal.")

Such analyses, while flawed, show the economic and social downsides of the "consumer escalator." Much of our spending clearly is unnecessary or wasteful, raising troubling moral questions. Moreover, the uphill pursuit of material nirvana is stressing us out. Amid widespread wealth, most Americans aren't content with their lives.

Is that such a terrible thing? I'm ambivalent. Ambition, dissatisfaction with the status quo, a desire to improve our lots and those of our children—these are profoundly American, if not universal, traits. They have driven us to stunning accomplishments and global leadership, and few would want the alternative of complacency and stasis. Yet we spend more than we should on Armani and OshKosh B'gosh, and it's making us crazy. Schor would have us on a middle path, one that retains the ardor but loses the insanity. Perhaps it's worth a try.

BY KEITH H. HAMMONDS

Hammonds drives a rusty 1987 Acura—and a 1992 Ford Explorer.



WE'RE SHOPPING OURSELVES SILLY, SCHOR SAYS, BUT HER EVIDENCE ISN'T COMPELLING

BY STEPHEN H. WILDSTROM

A FAX THAT DOES IT ALL

This new LaserJet scans, copies, prints and yes, faxes like a champ, all for \$699

When electronic mail burst on the scene as a mainstream business tool a few years back, many computer pundits declared that faxing was doomed. E-mail was easier, faster, and, especially, much cheaper. Today, it's clear that at most, E-mail slowed the growth of fax a bit. What's more, manufacturers continue to turn out gear designed to make faxing easier and more efficient.

One of the most intriguing of these products is the new LaserJet 3100 from Hewlett-Packard Co. The \$699 machine, based on the \$400 LaserJet 6L printer, can handle all the printing chores of your Windows 95 or NT computer with 600-dot-per-inch black-only output at six pages per minute. It adds scanning, copying, and a sophisticated fax machine, combining to make for an inexpensive and compact multifunction machine that does several things very well.

The 3100 could easily justify itself as a stand-alone fax. Until recently, laser faxes have been designed for heavy-duty work and cost well over \$1,000. The cheapest faxes use miserable thermal paper that curls up, fades quickly into illegibility, and costs roughly 5¢ a sheet.

Slightly more expensive units use inkjet printers, which are noisy and use relatively expensive ink cartridges. Lasers offer the best and fastest printing, quiet operation, and the lowest per-page cost of supplies.

Unlike many earlier multifunction machines, the 3100 does not scrimp on fax capabilities. It can hold 150 pages in memory, save 175 numbers for speed dialing, distribute faxes to up to 25 group lists, and poll remote fax machines to fetch transmissions.

While all of these functions can be controlled via the



THE LASERJET 3100: Your PC can run it

3100's push buttons, the unit really shines when you operate it through your PC using the very capable JetSuite software from JetFax. JetSuite lets you control the 3100's scanner, copier, and fax functions from your computer. Drop a document to be faxed or scanned into the input slot, and a menu pops up on your screen asking if you want to fax, copy, or scan the document. Choosing "fax" allows

you to fill in a cover page form, dial the phone, and send the document to one or more recipients. As with other fax software, you can create documents in a word processor or other application, then dispatch them by "printing" to the fax machine.

If you send a lot of faxes—enough so that your fax machine is busy most of the time—you might want to move up to the JetFax M900 series, starting at \$2,495. The M910 offers the same general features as the HP and the same JetFax software. But it is designed for more rugged use—faster printing, bigger paper bins, more memory, and other features consistent with a heavy-duty cycle. Other models in the family add dual-line faxing so that you can send and receive simultaneously. The ultimate in fax capability is software—such as RightFAX, starting at

\$1,495—that runs on a Windows NT server and allows faxes to be sent and received from any PC on a network.

At the other end of the spectrum, you can equip your computer for faxing at very little cost. Just about every modem sold today has the ability to send and receive faxes. Windows 95 (but not NT) includes fax software. If you want something more capable, Symantec Corp.'s \$95 WinFax PRO adds more sophisticated features such as distribution lists. An inexpensive sheet-fed scanner, such as a \$99 Visioneer PaperPort vx, lets you fax any page that can be scanned.

Fax may not be the coolest form of communication, but it still wins for reliability and ubiquity. With a good PC-based setup, it can be among the easiest and most efficient, too.

BULLETIN BOARD

WIRELESS

A CHEAPER CAR PILOT

Navigation systems installed in cars use mapping software and satellites to help you find your way near anywhere, but the \$1,500-plus cost is daunting. Now, a 3Com Corp. PalmPilot, a \$19.95 adapter cable from

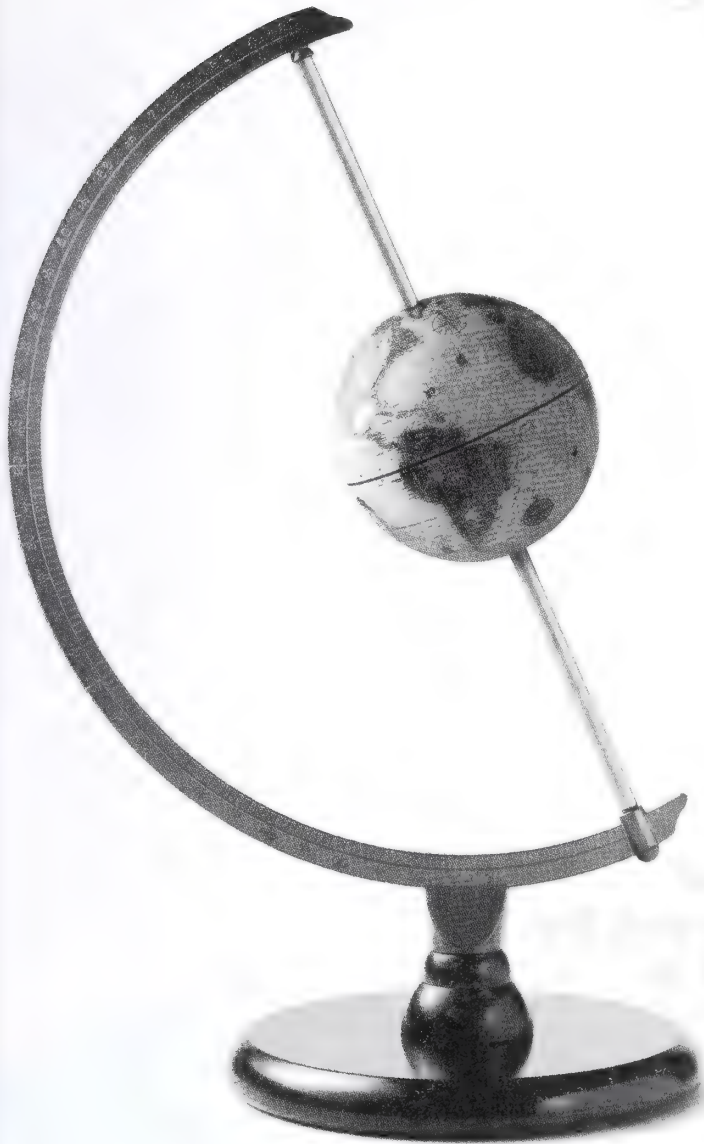


DeLorme (207 846-7000), and an inexpensive global positioning system unit, such as DeLorme's \$199 TripMaker, can guide you for far less. You plot a route on a desk computer using DeLorme's \$45 Street Atlas USA 5.0 or AAA's \$39 Map'n'Go 4.0, then transfer instructions to your PalmPilot. The Pilot can't display maps or speak but does beep to warn you of upcoming turns. To read it easily, you'll need a Velcro strip or other holder on your dash. And it would be helpful if it told you to turn left or right, rather than east or west. But the GPS Pilot is useful despite its flaws, and it could presage a new generation of navigation systems.

THE INTERNET

EASY FILE COPIES

Internet old-timers know that the file transfer protocol (FTP) is a much better way to download big files than using the Web. But FTP has always been hard to use. Now, the \$37.50 WS-FTP 5.0 from Ipswitch (www.ipswitch.com) makes the process far easier by integrating with Windows Explorer and providing point-and-click file copies from FTP servers.



HAS THE WORLD GOTTEN SMALLER, OR IS IT THAT WE'VE JUST GOTTEN BIGGER?

The **St Paul**

ACCESSING INFORMATION

[WHAT YOU HAVE]

By now, everyone knows the modern-day mantra: information is power. The trick is knowing how to make it quick accessible throughout your company's network. Which is where we come in. Using fibre channel technology, Seagate is developing hardware and software to deliver Storage Networking. A revolutionary concept that'll bring speed, intelligence and a limitless capacity to storage and networks. So that all your information is entirely accessible to everyone who wants it. All the time. It's just one of the ways Seagate is helping to access, process, analyze and protect your information. So you'll have it, the way you want it. To find out more, visit us at www.seagate.com/bw

Seagate, the Seagate logo and the tagline are registered trademarks or trademarks of Seagate Technology, Inc.



[WHAT YOU WANT]

 **Seagate.**

Information, the way you want it.

BY PAUL CRAIG ROBERTS

ECONOMIC FACTS PLAY SECOND FIDDLE TO FEELINGS



NONSENSE:
The federal budget deficit, Social Security privatization, and Michael Milken have all been hostage to hysteria

Paul Craig Roberts is John M. Olin Fellow at the Institute for Political Economy in Washington, D.C., and Senior Research Fellow at the Hoover Institution, Stanford University.

This feature, Economic Viewpoint, originated on Sept. 5, 1983, when then-Editor-in-Chief Lewis Young concluded that BUSINESS WEEK's readers needed a better perspective on the Reagan Administration's economic policy. I was chosen as the columnist for the new feature. My column ran every other week, sometimes in two full pages.

On May 6, 1985, a new policy was announced by Stephen B. Shepard, the new editor-in-chief: "Roberts' lively and provocative articles have made the feature a popular one. We have decided to build on that success. Beginning with this issue, Economic Watch [the feature's title until November, 1987] will appear in the magazine every week instead of only twice a month as it has in the past. To join Roberts, we have enlisted three other distinguished contributors."

After 16 years as BUSINESS WEEK's longest-running columnist, I'm writing my last column. Over those many years, I heard from more readers than I could answer. To make partial amends, I'm dedicating my final column to the three issues that brought in the most mail—the budget deficit, Social Security privatization, and Michael Milken. Readers whose local papers don't carry my syndicated column can find me at www.opeds.com and monthly in *Investors Business Daily*.

RED INK. Many of my columns dealt with the deficit hysteria that threatened to wreck the supply-side plan for escaping from stagflation and worsening trade-offs between inflation and unemployment. Supply-side economists concluded that the malaise of the U.S. economy came from pumping up demand with easy money while discouraging output with high marginal tax rates. The inability of Keynesian economists to revive their demand-management policy opened a door for supply-siders.

President Reagan's plan was to reduce the growth rate of the money supply gradually while improving economic incentives. The Fed, however, believed that economic growth caused inflation and overreacted to what Chairman Paul A. Volcker saw as a massive fiscal stimulus. Volcker put the economy into recession before the tax cuts went into effect, and Reagan began deep in the deficit hole.

The red ink terrified Republicans, whose antideficit rhetoric had defined Republican economics since the days of Herbert Hoover. Budget Director David A. Stockman and Council of Economic Advisors Chairman Martin S. Feld-

stein argued that the deficit would force up interest rates, crowd out investment, and prevent an economic recovery. They wanted the tax cuts put on the back burner, repealed, or other taxes raised.

The deficit hysteria grew over time. Wall Streeters claimed the deficit would revive inflation and wreck the bond market. Economists blamed the deficit for a strong dollar that allegedly was deindustrializing America and for a trade deficit that allegedly was giving foreigners control over the U.S. economy.

I carefully answered these misconceptions but Republicans read, "deficits don't matter" and the hate mail poured in. The years passed and the deficits persisted, but inflation and interest rates continued to fall. The U.S. economy continued to expand, and U.S. companies became the most competitive on earth. Today the budget deficit has disappeared, but the trade deficit is larger than ever.

The facts and the Republicans passed by one another like ships in the night. Exhausted by deficit monomania, the Republican Party has lost its edge as the party of ideas, and its leadership is floundering.

The responses of New Deal Democrats to my articles on privatizing Social Security were as emotional as Republicans' responses to deficit articles. Some readers hated the idea of a privatized pension system, and I'm grateful to them for making me aware before my debate with former N.Y. Governor Mario Cuomo. On National Public Radio that Social Security is a subject that can be broached with facts and analysis. We're in a race between the passage of the New Deal generation and the collapse of Social Security.

The hate mail in response to my column about junk-bond king Michael Milken was a third lesson in the feebleness of facts. Milken's persecution was the vehicle by which an ambitious U.S. Attorney became mayor of New York. Milken was tried and demonized in the media. To end the ordeal, Milken agreed to a six-count plea bargain of minor infractions he had never before involved any time in prison and he was double-crossed. Despite the insistence of many readers, Milken was not convicted of insider trading.

As a columnist, I've found that giving people information may not work when they want emotional vindication. As the growing emphasis on feelings crowds out reason, facts will play a smaller role in public discourse.

THERE'S AN EMERGENCY BOARD MEETING. THE CFO NEEDS NUMBERS BY NOON!

You Need Them
Fast
You Need Them
Right
You Need
CFO Vision™



When you're under pressure to make critical business decisions, CFO Vision software delivers the timely and accurate information you need.

CFO Vision is the single source for all your key business information, both financial and non-financial—readily accessible for interactive analysis and reporting. It's never been easier to see product and customer profitability, the potential impact of a reorganization, or key performance indicators—in any currency.

You can view your business from all angles because CFO Vision is the first financial consolidation and reporting software that integrates flexible multidimensional analysis (OLAP). All from one vendor...SAS Institute, the leading name in decision support at more than 29,000 companies worldwide including the Fortune 100.

For a closer look, give us a call or visit us at www.sas.com/vision



SAS Institute Inc.

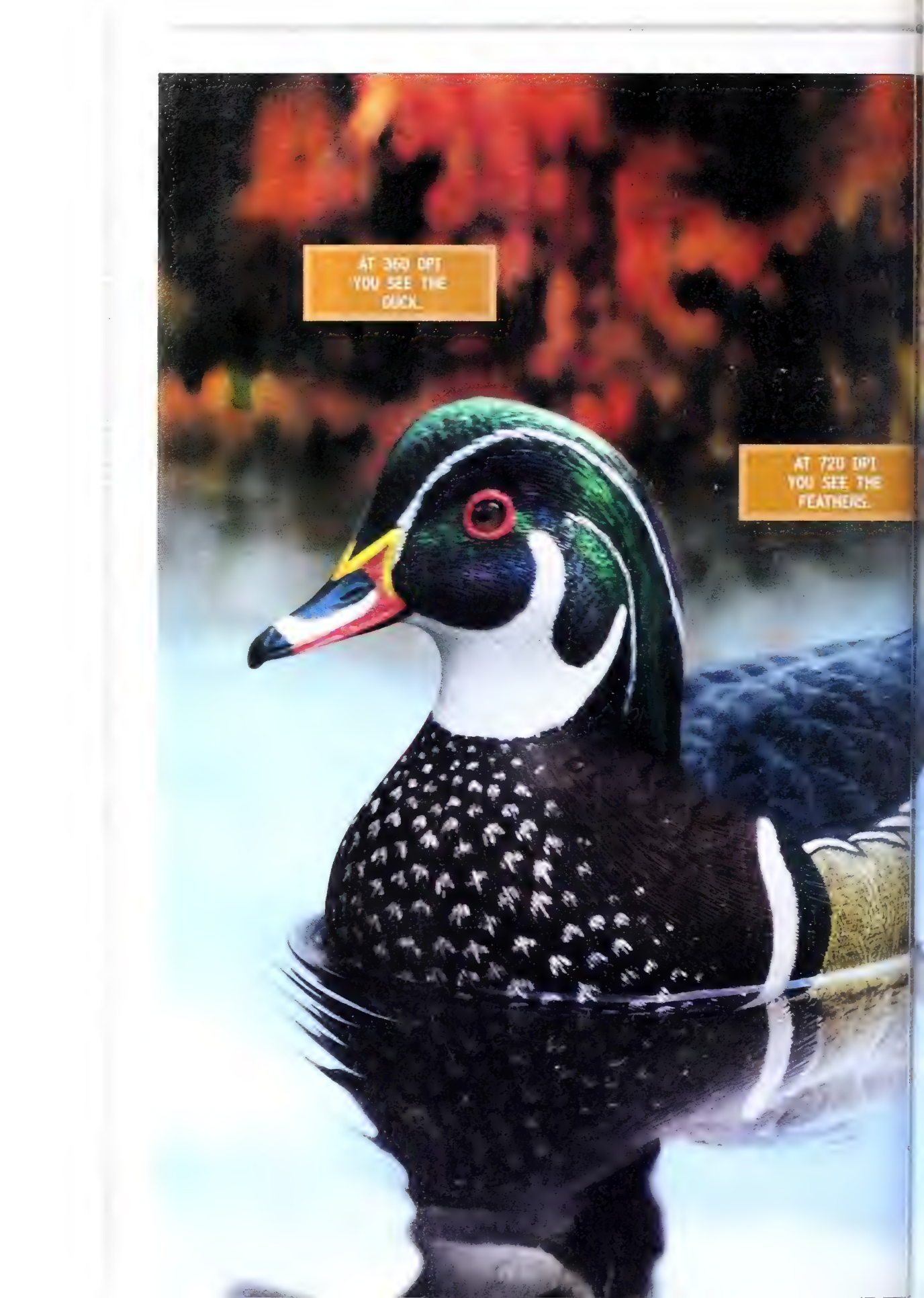
The Business of Better Decision Making

E-mail: bw@sas.com

www.sas.com/vision

919.677.8200

In Canada 1.800.363.8397

A detailed photograph of a mallard duck in a pond. The duck is shown in profile, facing left. Its head is turned slightly towards the viewer, revealing its characteristic green iridescent cap, a white stripe above the eye, and a red eye. The bill is multi-colored with yellow, red, and blue. The neck and breast are white with a dense pattern of black spots. The background is a soft-focus view of autumn trees with red and orange leaves. Two orange text boxes are overlaid on the image: one in the upper left and one in the middle right.

AT 360 DPI
YOU SEE THE
DUCK.

AT 720 DPI
YOU SEE THE
FEATHERS.

YOU'VE GOT TO SEE IT IN

EPSON

COLOR.



AT 1440 DPI
YOU SEE THE
DECOY.

This decoy could fool a real duck. It may even have fooled you. But it didn't fool our printer. See the brush strokes on the chest? The way the water drop beads on the neck? The amazing EPSON Stylus® Color printers picked up every telling detail. Because they're designed with our exclusive PerfectPicture™ Imaging System. 1440 x 720 dpi for incredible detail. Micro Piezo™ Technology for a clean, consistent dot. And Photo Quality color with laser-sharp black text—for print quality that's already won 62 major awards, including PC Magazine's Editor's Choice. You'll get overall print speeds faster than the leading competitor's. PC/Mac compatibility. Plus a two-year warranty. For more information, call 1-800-GO-EPSON (ask for Operator 3100) or visit us at www.epson.com. Just tell them a little bird told you.

**PRESENTING THE WORLD'S FIRST 1440 DPI
COLOR INK JET PRINTERS.**



EPSON Stylus® Color 800. The best printer for business.
EPSON Stylus® Color 600. The best printer for small offices.

BY HOWARD GLECKMAN

LOWER SALES, HIGHER PROFITS?

One economist sees a link

It sounds paradoxical, but at least one economist argues that the profits boom of the 1990s was caused in part by a historic collapse in the growth of business sales. According to James Paulsen, chief investment officer of Northwest Investment Management Inc., the lack of good top-line growth forced managers to undertake the restructurings that boosted productivity and held down inventory and compensation costs. The result: strong earnings.

Paulsen points out that since 1990, sales have grown at an average annual rate of just over 5%, the slowest pace of the post-World War II era. Nevertheless, profits have boomed by more than 10% annually, the strongest decade since the war. In the 1960s, by contrast, annual sales grew at a rate of almost 7%, while profits rose at less than a 6% annual rate.

But Paulsen frets that today's optimistic atmosphere is not sustainable. He notes that real gross domestic product has grown at just 2.3% annually this decade, far below the 3.6% post-war average. Even job growth has averaged a modest 1.7% a year. "The persistent decline in top-line sales growth simultaneously explains record-setting profit and stock market performance combined with disquieting indicators of economic weakness," Paulsen says.

His biggest fear: true deflation, as prices collapse in the face of continued weak demand. To Paulsen, continued price weakness suggests that bond yields are far too high. He sees the long treasury bond settling in at as low as 4%, compared with today's 6%. But he notes that despite the fundamental weakness of sales, stock prices should continue to rise as interest rates fall.

INFLATION: A DIFFERENT TAKE

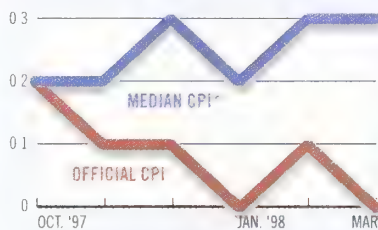
A Fed bank sees higher prices

Not everyone is sold on the idea that the war against inflation has finally been won. The Federal Reserve Bank of Cleveland has tweaked the government's

traditional measure of consumer prices and concluded that the U.S. may be a lot further from price stability than most analysts think.

The Bureau of Labor Statistics calculates the consumer price index as the weighted mean—or the average—of the prices of 36 product categories. By that measure, the annual inflation rate has fallen to barely 2%. But the Cleveland Fed publishes an alternative measure of inflation based on what it calls the median CPI, originally proposed by econ-

IS INFLATION UNDERSTATED?



▲ MONTHLY PERCENT CHANGE
*THE WEIGHTED MEDIAN OF THE INDIVIDUAL INFLATION RATES FOR DIFFERENT CATEGORIES OF GOODS AND SERVICES
DATA: BUREAU OF LABOR STATISTICS, FEDERAL RESERVE BANK OF CLEVELAND

omists Michael F. Bryan of the Cleveland Fed and Stephen G. Cecchetti, now research director of the New York Federal Reserve.

The median CPI effectively discounts the most extreme fluctuations in consumer prices, which understate the overall rate of inflation. For example, over the past year, the prices of products such as fuel and used cars have fallen sharply, which has tended to pull down the government measure of inflation. By contrast, the median CPI gives less weight to these large but possibly isolated declines.

The effect of such a change is dramatic. From October, 1997, to March, 1998, the government's measure of CPI barely budged—rising, on average, less than 0.1% a month. But according to the Cleveland Fed's measure, prices rose more than twice as fast. In March alone, officially measured CPI was flat. Even when you exclude volatile food and energy prices, the CPI shows only a modest 0.1% hike. But median CPI spiked by a startling 0.3%, or an annual rate of 4%.

Cleveland Federal Reserve Bank economists argue that their median-CPI method is a more accurate predictor of inflation and is more closely tied to the growth of money in the nation's economy. But despite Cecchetti's influential position, they are still a long way from convincing colleagues at the Federal Reserve, where governors, including Chairman Alan Greenspan, are said to be skeptical.

FIRING UP A BLACK MARKET

Illegal cigs may follow tax hikes

Critics of big hikes in cigarette tax argue that such increases will spawn an explosion of illegal, black-market bacco. A soon-to-be-released General Accounting Office study suggests there may be good reason to worry.

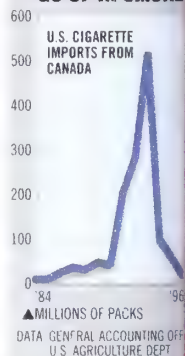
The GAO looked at what happens when one state's cigarette levies are much higher than neighboring jurisdictions'. It also studied Canada, which passed big tax increases in the early '90s. In both cases, buyers found ways to avoid the higher costs of smoke.

The findings could be important since Congress is debating whether to raise cigarette taxes by as much as \$1.10 a pack. Tobacco industry executives complain that a black market will inevitably follow, as American cigarettes are smuggled in from countries such as Mexico.

In 1997, the tax in Washington State was 82.5¢ a pack. The states bordering Washington—Idaho and Oregon—had much lower levies. As a result, smokers bought so many out-of-state cigarettes that Washington lost \$52 million to \$61 million in tax revenue. The GAO calls that a "ballpark" estimate but concludes that "smuggling cigarettes from low- to high-tax states may now be an emerging problem."

The GAO found the same result when it looked at Canada, which more than doubled prices from 1984 to 1993 by hiking taxes. During the period, Canadian cigarettes were exported tax-free to the U.S. and then smuggled back. The huge cross-border price gap resulted in a more than elevenfold increase in U.S. cigarette imports from Canada. As a result, in 1993 alone, Canada lost more than \$2 billion in tax revenues as its citizens smoked 90 million to 100 million cartons of contraband cigarettes. When Canada lowered taxes and increased anti-smuggling efforts in 1994, U.S. imports plunged. By 1997, they had fallen 96% from 1993 high

CIGARETTE IMPORTS GO UP IN SMOKE



DATA: GENERAL ACCOUNTING OFFICE, U.S. AGRICULTURE DEPT.

ey will do business at a pace that's hard to conceive of.

th industry in constant motion and global growth at lightning speed.

y will compute and invent faster than we can imagine.

America's largest generator of electricity already
ere in the world will they get the energy they need?

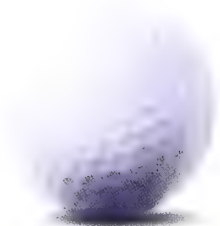
provides energy for millions of people worldwide.



Cooperstown
1939



Canton
1963



Finally.

The World Golf Hall of Fame at World Golf Village opens May 19.
It's golf's ultimate destination.



WORLD GOLF
VILLAGE

St. Augustine, Florida

Resort hotel and conference center • Championship golf course • Spa • An IMAX® theater
• Restaurants and shopping • Vacation villas • Condominium and residential communities

www.wgv.com • 1-800-WGV-4746



JAMES C. COOPER & KATHLEEN MADIGAN

GREENSPAN MAY HAVE FIGHT ON HIS HANDS

Low unemployment and a soaring money supply give rate-hikers ammo

U.S. ECONOMY

If the Federal Reserve's Mar. 31 policy meeting was as cautious as the rumors have suggested, then the May confab should be a doozy. It's shaping up to be a war of economic philosophies. Until recently, the various camps within the Fed have made for interesting debates. Now, positions are starting to harden.

On one corner, you have the traditionalists, headed by Governor Laurence H. Meyer, who believe that excessively tight labor markets fuel inflation. They will point to the plunge in April's jobless rate, to 4.3%, as evidence that the Fed's experiment to test the economy's inflationary limit has gone too far.

His group will find an ally in the monetarists, led by Cleveland Fed President Jerry L. Jordan and newly arrived St. Louis Fed President William Poole. They cite surging money growth as evidence that current policy is pumping way too much liquidity into the economy, possibly inflating stock prices.

TOUGHER JOB MARKETS FUEL WAGE GROWTH



And in the other corner, there are the new economists. Although Fed Chairman Alan Greenspan would object to the moniker, his past words and actions place him at the forefront of this camp. These policymakers believe that something is different this time. Greenspan calls it the "X-factor" that separates the worrisome inflation predictions

FED CHIEF

also has a problem with the monetarist argument. The historical link between money and the economy broke down in the early 1990s, possibly reflecting financial-market innovation, and it has recently begun to show signs of reestablishing itself. Greenspan would argue that it is still too soon to use money growth as a policy guide.

Greenspan's beliefs seem likely to win out on May 19, especially with the Asian crisis clearly hitting the manufacturing sector. Still, Wall Street is starting to worry about just how much longer the chairman can maintain

his position against an apparently rising tide of opposition to a steady-as-she-goes policy.

A gusher of surprising data on everything from economic growth to inflation to unemployment will give each side plenty of ammunition. In particular, the strong April jobs report, coupled with weak first-quarter data on productivity (charts), give those arguing for a rate hike powerful new backup.

On traditional grounds, the labor market numbers look worrisome for future inflation. The focal point is the steep drop in the unemployment rate, from 4.7% in March to a 28-year low of 4.3% in April. That decline was no fluke. Indicators that closely correlate with the jobless rate, especially economic growth and new claims for jobless benefits, have been predicting a drop below 4.5%. At the same time, hourly pay in April rose 4.4% ahead of a year ago, the fastest annual clip in 15 years, with pay in the service sector up 5%.

Moreover, at the current growth rates of employment and the labor force, the jobless rate will go even lower. Nonfarm payrolls increased 262,000 in April, a strong rebound from March's weather-related dip of 24,000. Payrolls have slowed, but not by enough. Monthly gains have averaged 224,000 so far this year, vs. 267,000 last year. The average would have to slow to about 150,000 per month just to stabilize the fall in the jobless rate, and it would have to slow even more than that to halt the acceleration in wage growth.

THE PROBLEM: Pay is starting to rise far faster than even good gains in productivity can offset. And the news on first-quarter productivity, measured as output per hour worked, was not good. It rose a scant 0.2%. After the Labor Dept. applies new seasonal adjustment in its annual revision in June, however, the first-quarter gain is likely to be somewhat larger.

But even at productivity's healthy 1.8% trend of the past year, the ongoing speedup in wages and benefits is pushing up unit labor costs, which lie at the heart of corporate pricing and profits. Unit labor costs rose 3.8% in each of the last two quarters, the fastest two-quarter increase in five years.

Looking at it another way, the inflation-adjusted em-

PRODUCTIVITY STARTS TO LAG BEHIND REAL WAGES



ployment cost index of wages and benefits shows that real wages are increasing 2.5% per year. But here again, worker productivity is not rising fast enough to justify that gain. The bottom line: Companies that can offset higher costs by raising prices are doing so, and those that cannot are watching their profits wither.

MOUNTING WORRIES among some policymakers that tight labor markets could fuel inflation would quickly ebb amid signs that demand for goods and services is cooling. But on this front, the evidence remains mixed.

Manufacturing is clearly feeling the chill from Asia. Factory employment stopped growing in February and fell in both March and April. Also, the factory workweek has been shrinking since reaching 42.2 hours in December, and it fell sharply in April, by 1.1 hours, to 40.7 hours. However, the Labor Dept.'s April data were collected during the Easter holiday week, which probably depressed the readings on hours.

Nevertheless, factory production in April likely fell for the third month in a row, amid weaker exports and the need to pare inventories. A drop-off in inventory growth from the rapid first-quarter pace could be a big drag on second-quarter economic growth.

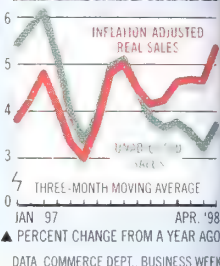
Domestic demand is another story. While spending by U.S. consumers and businesses is bound to slow this quarter from its booming first-quarter pace, the depth and duration of any slowdown remains hard to

gauge, especially with consumer spending so strong. Retail sales rose a healthy 0.5% in April, and real retail sales are especially strong (chart), and for now, consumer spending is on track to grow 3% to 4%, following the first quarter's 5.7% jump.

Unrelenting strength in U.S. demand, along with a soaring stock market, plays right into the hands of the monetarists. They believe that money growth is the chief factor in economic growth and inflation, and the broad measure of money, called M2, is currently growing nearly 7% from a year ago, the fastest pace in 11 years. In particular, if the stock market's runup simply reflects a flood of excess liquidity looking for a home, instead of bright prospects for productivity and profits, then fears of an asset bubble would be justified.

Greenspan, of course, will pull out his X-factor and say, don't worry. But two things are certain: Based on the latest labor market trends and some Fed officials' recent remarks, soothing his colleagues' concerns won't be as easy as it used to be. And if the Fed does tighten, the stock market's love affair with the Greenspan Fed will end quickly—maybe even painfully.

REAL RETAIL SALES ARE GROWING RAPIDLY



DENMARK

ONE STRIKE AGAINST THE ECONOMY

The government stepped in on May 7 to halt Denmark's worst strike in 13 years, as the 10-day stoppage crippled one of Europe's most dynamic economies.

Prime Minister Poul Nyrup Rasmussen implemented an agreement that gave workers more vacation time, but at a cost of smaller pension payments. The deal was only a bit better than the contract turned down earlier, so union officials were not happy with the intervention. But the strike of more than 400,000 workers had already closed factories, schools, and hospitals, and sharply cut food and energy supplies. The Finance Ministry calculated that the strike would cut real gross do-

mestic product growth in 1998 to 2.2% from the initial forecast of 2.7%. The economy was already slowing due to tighter monetary policy and falling oil prices.

Denmark had been one of Europe's strongest economies, buoyed by both solid domestic demand and export gains. Real GDP grew 4.5% in 1997, almost twice as fast as Europe as a whole. The robust economy has tightened Denmark's labor markets—one reason unions felt

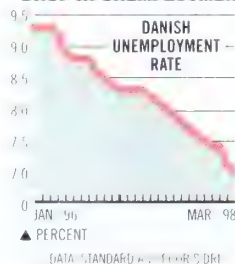
confident about calling the strike. The jobless rate fell to an 18-year low of 7% in March (chart), after climbing as high as 13.4% in 1994.

For 1998, the expected growth rate puts Denmark's economy on

a par with the rest of the Continent. Denmark's central bank unexpectedly hiked interest rates on May 7 in an effort to help the weakening krone. The move was unusual because it occurred not in conjunction with the Bundesbank. Also, plunging oil prices are cutting into oil revenues. Because of the increase in labor costs, the strike will push up inflation, which stood at 2.3% in March.

With the strike basically over, Denmark's next big economic event will be the May 28 vote on the Amsterdam Treaty, which would expand the European Union and change refugee policies throughout the EU. Polls show a large number of Danes are still undecided. But analysts think that a "no" vote would mean both a weaker krone and higher interest rates.

THE SHARP AND STEADY DROP IN UNEMPLOYMENT





do 14K gold pocket watch from 1910

Grand Prix from the Brussels 1910 Universal Exposition was one of Movado's earliest gold medals. Over the past century, Movado has won more than 200 international awards (and has been awarded 98 patents) for design innovation in time technology. The tradition continues...



Movado watches are exhibited in these museums around the world:

Staatliches Museum für angewandte Kunst, "Neue Sammlung", Munich, Germany

Museum Moderne Kunst Vienna, Austria

Museo de Arte Moderno Bogotá, Colombia

Museum Boymans-van Beuningen, Rotterdam, The Netherlands

Museo de Arte Contemporáneo, Caracas, Venezuela

Finnish Museum of Horology, Espoo/Helsinki

Sezon Museum of Art Tokyo, Japan

Museum of Decorative Art Copenhagen, Denmark

Museo de Bellas Artes Bilbao, Spain

Design Museum London, England

Kawasaki City Museum Kawasaki, Japan

Victoria and Albert Museum, London, England

Museum Ludwig Cologne, Germany

Museum Beyer Zurich, Switzerland

Museu de Arte de São Paulo, São Paulo, Brazil

The Movado Olympian™ Classic. Boldly sculpted sports watch in brushed and polished two-tone stainless steel. New white Roman dial. Hidden deployment clasp. Swiss quartz. Sapphire crystal. Water resistant. His or hers. \$950.

MOVADO
The Museum.Watch.

ROBINSONS • MAY

THE ECONOMY

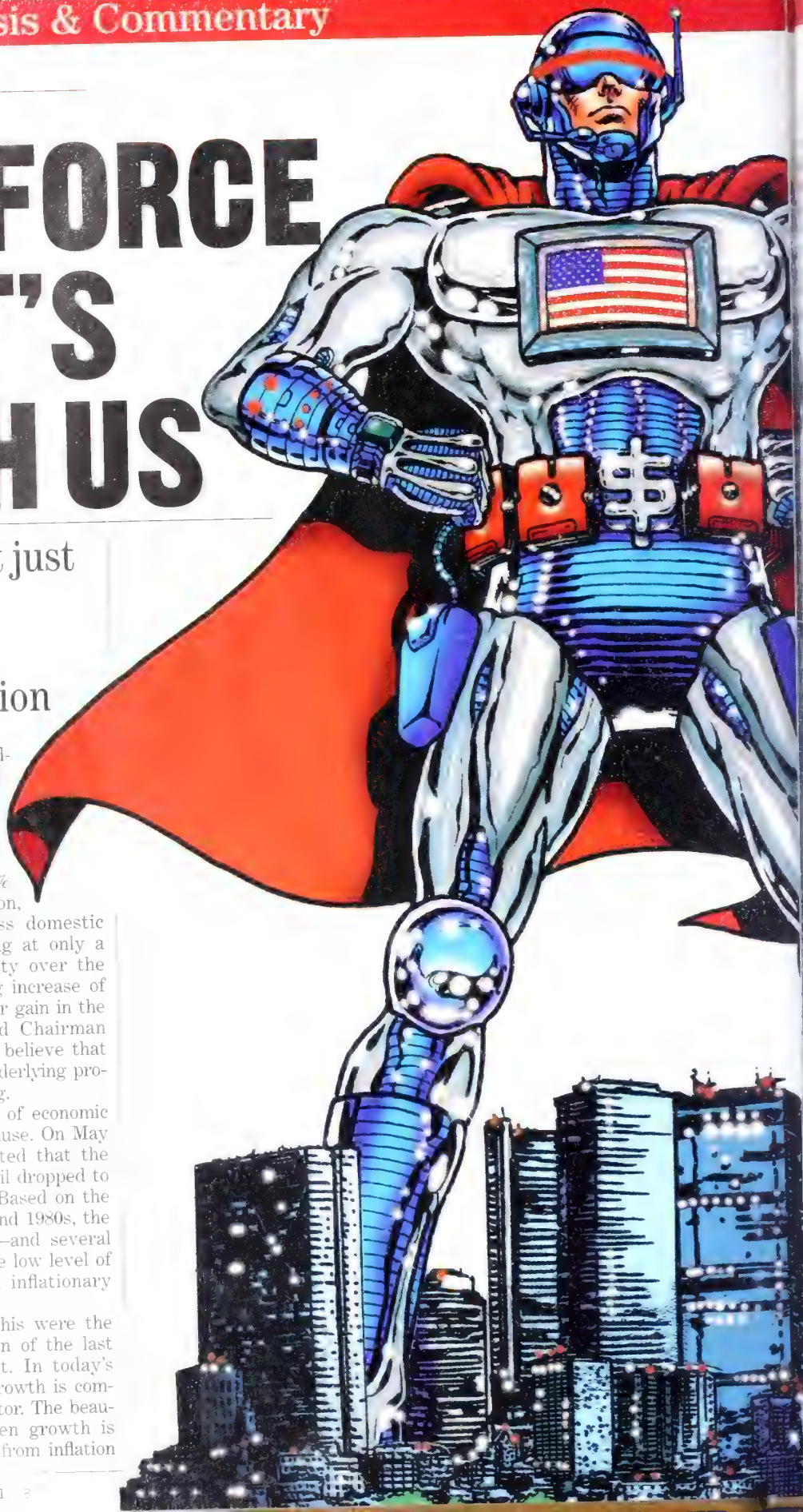
THE FORCE THAT'S WITH US

High tech isn't just powering growth—it's zapping inflation

On the eve of the Federal Reserve's May 19 monetary policymaking meeting, good news abounds. The U.S. economy continues to steam ahead—growing by 3.6% over the past year. Inflation, as measured by the gross domestic product deflator, is running at only a 1.4% rate. And productivity over the past year showed a strong increase of nearly 2%, despite a meager gain in the first quarter. Indeed, Fed Chairman Alan Greenspan is said to believe that there's no evidence that underlying productivity growth is slowing.

Still, there is one piece of economic data that gives the Fed pause. On May 8, the Labor Dept. reported that the unemployment rate in April dropped to only 4.3%, a 28-year low. Based on the experiences of the 1970s and 1980s, the fear of many economists—and several Fed governors—is that the low level of unemployment makes an inflationary outburst inevitable.

That might be so—if this were the typical economic expansion of the last two decades. But it's not. In today's economy almost 30% of growth is coming from the high-tech sector. The beauty of this high-tech-driven growth is that it actually subtracts from inflation



er than adds to it, because prices of computer and communications gear are falling so sharply. At the same time, companies using all these high-tech tools are saving costs by streamlining operations, extending the capabilities of workers, and avoiding the need to hire more. All told, the high-tech boom is adding one-half percentage point or more off inflation.

This isn't the only time in economic history that strong growth has persisted while prices have remained stable. In the second half of the 19th century, in the 1920s, and in the long post-war boom, the U.S. economy expanded rapidly for long periods without inflation. "If rapid economic growth is being produced by technological improvements and monetary policy is restrained, then it will lead to lower inflation," says Nobel laureate economist Milton Friedman.

PRUDENCE. Indeed, under Chairman Alan Greenspan in the 1990s, the Fed has earned a hard-earned reputation for monetary prudence. In the 1970s, by contrast, the Fed injected massive quantities of money into the system in a misguided bid to boost employment and growth in an economy traumatized by two oil shocks. Inflation took off as business eagerly hiked prices. Now, there's little chance that inflation will choke off the U.S. economy anytime soon. The bigger danger is at the pool of employable workers who are exhausted long before price inflation hits dangerous levels. In April, the unemployment rate of college-educated workers dropped to a shockingly 3.7%, while the jobless rate of high school graduates was only 3.9%. "It's incredibly difficult to find people at any level with the necessary technical skills for today's jobs," noted Ralph S. Johnson, Johnson & Johnson chairman and CEO, at the Business Council's meeting in Williamsburg, Va.

To sustain growth, then, companies have to push hard on boosting productivity, rather than adding workers. That's where the technology boom has an additional payoff. Companies that can't find workers are hiking investment in productivity-enhancing information technology.

A lot of these productivity gains are com-

ing in high-tech companies that are able to dramatically boost the power of the equipment they make year after year. "You can have this rapid growth that doesn't make demands on labor and capital the same way that making widgets does," says Chris Varvares, president of Macroeconomic Advisers.

This link between innovation, strong growth, and low inflation has often been seen before in American history. Take the period from the 1870s on, for example. And thanks largely to dramatic improvements in manufacturing technologies, the rise of the modern business enterprise, and the opening of overseas markets, prices actually declined for prolonged periods. "Economists could see Andrew Carnegie churning out steel at lower cost and lower prices. They could see real changes in management and organization," says Richard E. Sylla, economic historian at New York University. "It was almost natural to economists back then that prices would go down with rapid economic growth."

In the 1920s, the economy roared ahead with the emergence of mass production and the spread of electricity, yet prices were basically flat. And then during the great economic boom from 1952 to 1965, inflation rose at a mere 1.3% annual rate.

This time, the driving force is investments in information technology. With white-hot competition and tight labor markets keeping an intense pressure on management to boost productivity, business is far more willing to risk its capital on new investment and innovative ways of doing business. "Low inflation begets strong growth, and strong growth begets lower inflation if that increased growth leads to more investment," says Mark Zandi, econo-

mist at Regional Financial Associates.

Indeed, business spending on information technology jumped at an annual rate of 26% in the first quarter, far above the 9% increase in 1997. Just look at EMC Corp., a \$3 billion maker of data-storage products. "A lot of customers

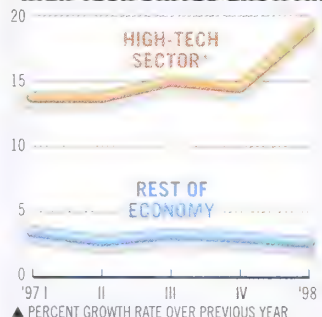
have been talking about their plans to double their storage requirements this year," says Senior Vice-President Colin G. Patteson. "We are very comfortable with projections of 30% year-over-year growth." Meanwhile, Bell Atlantic Corp. saw a dramatic increase in the demand for high-speed data lines, sending the total available bandwidth up by 43% over the previous year.

YEAR 2000. It's simple: Businesses need more computing power and telecom capacity. For example, drugmaker Eli Lilly & Co. is doing genetic research that requires a lot of computer-network bandwidth to shuttle complex files among the company's scientists. That's on top of testing more drugs and running increased clinical trials. "We're experiencing somewhere between 20% and 25% growth" annually in the demand for telecom bandwidth, help-desk support, and server capacity, says Edward Tunstall, Lilly's information officer. With

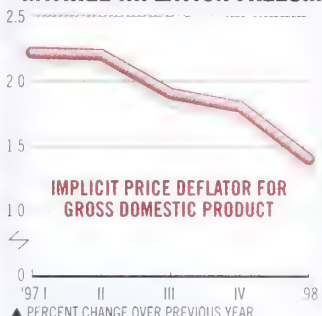
computer and telecom prices falling, that translates into a 10% rise in spending.

The increases in high-tech spending are not just restricted to the largest companies. Ariel Mutual Funds Co., a mutual-fund company in Chicago with 25 full-time employees and \$2.3 billion under management, is boosting high-tech outlays by 33% this year to enhance productivity and ensure Year

HIGH TECH DRIVES GROWTH...



...WHILE INFLATION FALLS...



...BUT LABOR SHORTAGES LOOM



*INCLUDES BUSINESS AND CONSUMER SPENDING ON INFORMATION TECHNOLOGY EQUIPMENT, HOUSEHOLD PHONE AND CABLE TV, AND HIGH-TECH EXPORTS AND IMPORTS
DATA: BUREAU OF ECONOMIC ANALYSIS, BUREAU OF LABOR STATISTICS, BUSINESS WEEK

2000 compliance. Meanwhile, high-tech spending is up 60% this year at Sandbagger Corp. in Wauconda, Ill. The reason? El Niño-related weather problems have caused a surge in demand for the company's automated sandbag-filling machines.

Companies also are investing more in their human capital in today's tight labor market. General Electric Co., for example, will spend \$300 million to \$400 million this year on putting workers through its Six Sigma training program—a technique aimed at achieving near-perfect quality, from the factory floor to the

bookkeeper's office. GE says that the cumulative net benefit of the Six Sigma quality initiative could approach \$5 billion by the end of 2000. "When business doesn't have any pricing power, they have to make profits by becoming more efficient," says Frederic S. Mishkin, an economist at Columbia University and former research director at the Federal Reserve Bank of New York.

To be sure, there are some disturbing signs. One motivation for today's merger mania is an attempt to regain some pricing power, although history suggests the tactic has rarely been suc-

cessful. And this all could unravel: high-tech spending slows. One result, decline in the productivity rate that would threaten the overall economic expansion.

Nevertheless, noninflationary growth is not an oxymoron. The notion that more people working and producing more goods and services reduces the purchasing power of money is highly questionable. That's good news for both Main Street and Wall Street.

By Michael J. Mandel in New York and Christopher Farrell in St. Paul with bureau reports

COMMENTARY

By Mike McNamee

MEGAMERGERS: WHAT'S THE BIG PICTURE?

When news broke of Citicorp's merger with Travelers Group Inc., President Clinton's first question was: What are we going to say about all these deals? His National Economic Council director, Gene Sperling, had a ready answer: Steer clear of commenting on specific mergers—but launch a sweeping review of concentration and competition in the American economy. "This merger wave is a major economic trend," Sperling says. "Those of us in the policy world should be looking at it in a broad way, rather than trying to intervene in the enforcement process."

Wish them luck. Since January, more than \$650 billion in megadeals have been announced—from banking to autos to telecom. That places questions about competition squarely at the center of economic policy: Have America's corporate giants bulked up enough to compete on a global stage? Are big companies such as Microsoft Corp. and SBC Communications Inc. smothering potential competition in industries vital to the New Economy? These are issues that ultimately have enormous economic and political impact, and they deserve the scrutiny of the White House.

Keeping that big-think outlook, however, won't be easy when the public is reeling from Megamerger-of-



SPERLING: Launching a broad review of policy

the-Week syndrome. Already, politicians have seized on the chance to score points while—in theory—they debate the dangers of market concentration. Witness how Senators Slade Gorton (R-Wash.) and Orrin G. Hatch (R-Utah) openly lobbied on behalf of home-state software interests—Microsoft and Novell Inc., respectively—during Senate hearings on the software industry. And as the NEC works on the study, it will inevitably

be heavily lobbied by both labor and business interests.

The NEC is starting on the right foot. Sperling spent the first two weeks of May huddling with White House lawyers to forge rules that let the Justice Dept. advise the NEC without compromising its independent enforcement role. And the Cabinet-level review, set to begin after Memorial Day, will look beyond antitrust and mergers to other structural issues, such as access to capital or regulation, that could stifle competition.

WEEKEND WORK. While the Administration works out broad principles, Clinton could act immediately on one front: beefing up the budget for antitrust enforcement at Justice and the Federal Trade Commission. Swamped with merger reviews, trustbusters are working nights and weekends just to keep up. That leaves few resources for investigating anticompetitive practices. Both agencies need more money so they can go toe-to-toe

with corporate litigators in the courts.

Consolidation is a key feature of today's business—and is likely to be for years to come. President Clinton should deal with that trend by making sure current laws are being enforced—and then giving some hard thought to whether new laws are needed to guide the New Economy.

McNamee covers economic policy in Washington.



Know thy customer. New Business Intelligence software tools can help you make the most of all the data that streams into your business every day.

IBM, the e-business logo and Solutions for a small planet are trademarks of International Business Machines Corporation in the United States and/or other countries. © 1998 IBM Corp. All rights reserved.



If data were money, you might manage it differently.

Less than 10% of corporate data is ever analyzed. We can help you leverage the “other 90%” of your data assets and turn business-as-usual into Business Intelligence. So you can spot market trends in time to lead them. Identify and reward best customers. And give your people on the spot the tools to make better-informed decisions in time to affect today’s results. Speaking of results, visit www.software.ibm.com/bis for over 25 business

case histories. Or call 1 800 IBM-7777, priority code 6C8AS007.



Solutions for a small planet™

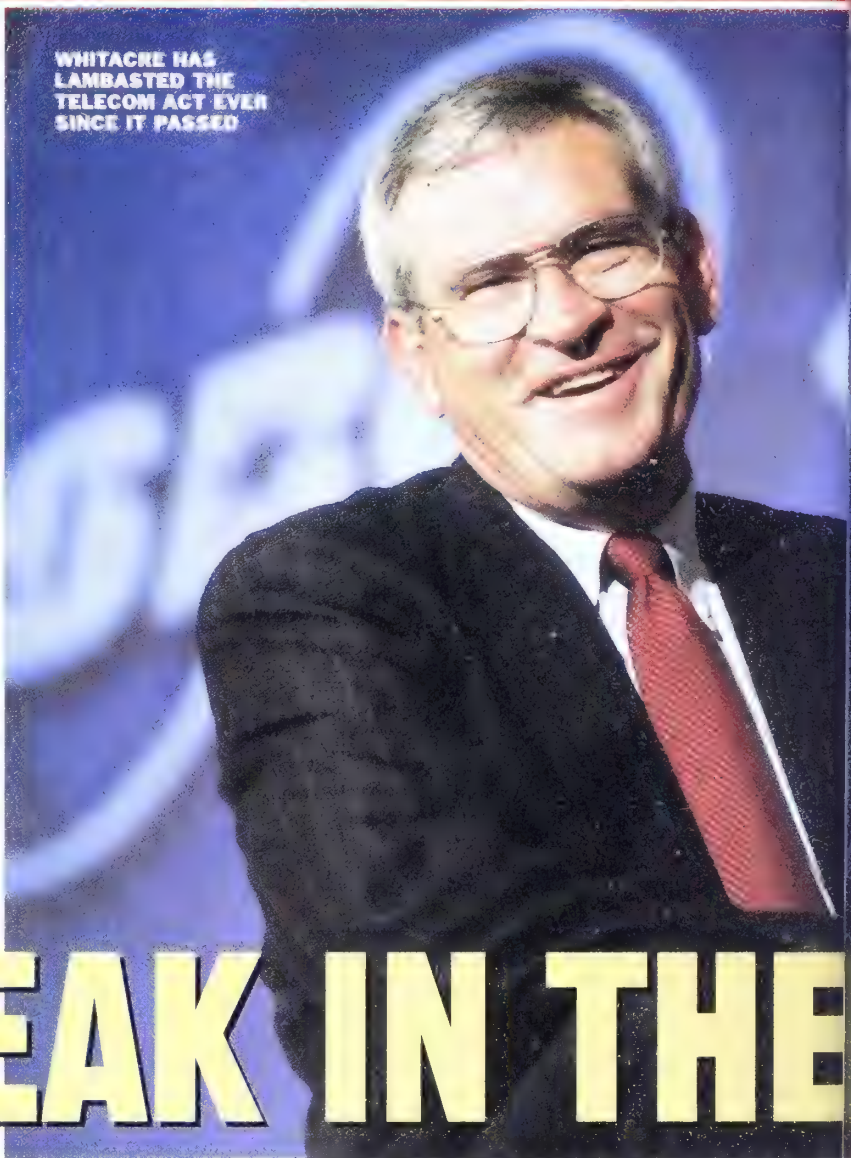
SBC-Ameritech may push the feds into rewriting the telecom rules

Will the biggest merger in the history of the telephone industry finally produce competition for your local phone company? That could be the result of the \$62 billion bid by SBC Communications Inc. for Ameritech Corp., announced May 11.

Not that the deal itself will accomplish that. Rather, it's the specter of the mammoth company to be created in the marriage of SBC and Ameritech—stretching from California to the Gulf of Mexico and north to the Great Lakes, and reaching a third of the phone customers in America. The birth of such a behemoth guarantees a thorough review of existing rules of competition and the creation of new ones.

Certainly the authors of the Telecommunications Act of 1996, the law intended to produce greater competition in the U.S. phone business, never anticipated the dealmaking frenzy that

WHITACRE HAS
LAMBASTED THE
TELECOM ACT EVER
SINCE IT PASSED



A BREAK IN THE

now will reduce the Baby Bells from seven to four. And that figure could go lower if BellSouth Corp. and U S West Communications—now relative mid-gets—succumb. “Congress clearly wanted companies like these to compete with each other and not merge. They couldn’t have been clearer,” says FCC Chairman William E. Kennard.

Indeed, boasted Edward E. Whitacre Jr., chief executive officer of SBC on the day he announced his deal: “This merger creates a new breed of telecom company.” But to bring his new creation to life, Whitacre needs the approval of the Federal Communications Commission and the Justice Dept. To get it, Whitacre—the executive who has done the most to thwart the 1996 law—is willing to negotiate on the rules keeping him out of long distance, which he has challenged in court. “If the FCC can force concessions across all SBC in exchange for [entry

into] long distance, this could be a catalytic event,” says Joseph S. Kraemer, director of communications consulting at A. T. Kearney Inc.

Clearly, the deal gives the FCC and Congress a chance to rethink ways to deliver the competition in local calling that the Telecom Act has failed to bring forth. Kennard still figures the 1996 law can do the job. As to the SBC deal, he says: “We’ve got to challenge the parties to show us that this will advance the goals of the Telecom Act.” In Congress, Senator Orrin Hatch (R-Utah), chairman of the Senate Judiciary Committee, has already promised hearings on the SBC deal, saying it “must be analyzed closely to understand its effect on competition and consumer welfare.”

Thus begins the haggling. Whitacre and Kennard—with Congress putting in its two cents—may be in for months of horse-trading that, many observers say,

could produce a new approach to deregulation. Key to breaking the logjam may be reaching an arrangement similar to what Bell Atlantic Corp. offered to smooth its Nynex Corp. acquisition. Last July, the Baby Bell agreed to open its network and offer rates and other concessions that the FCC sought to encourage competition. San Antonio-based SBC says it’s ready to deal on similar terms. “It wouldn’t be unreasonable for the FCC to say, ‘If you want this merger to proceed, that’s the kind of deal you must accept,’” says a key SBC strategist.

That gives the FCC the leverage to push hard on SBC to open its markets. And it has further justification to do so since the merger announcement. Until then, Ameritech had planned to offer local service in St. Louis—within SBC’s region. Now, it’s killing the initiative.

What would the FCC ask? It might require SBC and Ameritech to double s-

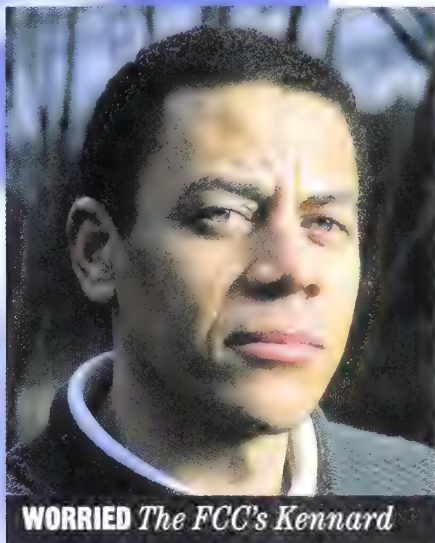
BEFORE THE DEAL, A REGULATORY WRESTLING MATCH

As it weighs the SBC-Ameritech merger, the Federal Communications Commission will look for concessions, such as:

- Quotas that guarantee a minimum level of local phone competition throughout Ameritech's Midwest region as well as SBC's Southwest and West Coast states
- SBC discounts—of more than the roughly 20% now available—to companies that wish to resell its local service
- A cap on residential rates so that consumers won't be hurt by the consolidation
- An SBC pledge to abandon its attacks on the 1996 Telecom Act and suspend pending litigation

To make sure its massive deal gets done, but on its own terms, SBC is likely to:

- Attempt to nail down the FCC on the conditions and timetable for SBC's entry into long-distance services
- Demonstrate its commitment to competition by offering to boost its planned \$200 million annual budget for selling local service outside its region
- Demand a say in setting the rules for competition in its local-service territories



WORRIED *The FCC's Kennard*

OGJAM?

s to 40% or 50% to competitors that to resell local service. It might even re SBC to drop lawsuits challenging 1996 law.

eaching some sort of agreement—a truce—with Whitacre would be a accomplishment for Kennard. Although SBC helped craft the Telecommunications Act of 1996, Whitacre has been attacking the law ever since. In the U.S. Court of Appeals is expected to consider a Justice Dept. appeal to SBC's stunning New Year's Eve victory, when a federal judge ruled out as unconstitutional key provisions of the Telecom Act that kept Bells out of long distance.

SBC and the FCC come to terms, deregulation of local services could be in high gear. "This deal is the catalyst for opening markets up for," says an SBC strategist. If not, SBC is back to the old way of shooting

down [the Telecom Act] in the courts." Indeed, if SBC-Ameritech makes local-service competition a reality, it would encourage the other Bells to respond, and encourage MCI Communications Corp. and AT&T, which have suspended local-service efforts, to jump back in.

Meanwhile, Ameritech and SBC will continue their attempts to win approval by state regulators and the FCC to gain entry into long distance. SBC expects to petition the FCC in June to begin providing long distance in Texas, says Senior Vice-President and General Counsel James D. Ellis. Ameritech is planning to resell long-distance service from Qwest Communications International.

Back in Washington, an energized Justice Dept. antitrust unit could give the deal tough scrutiny. Joel I. Klein, Justice's assistant attorney general for antitrust, created a political firestorm when he let the Bell Atlantic-Nynex

merger go through without change. State regulators are also eyeing the deal. Says Joan H. Smith, a commissioner with the Oregon Public Utility Commission, which won't rule on the deal: "This is too big.... It will have too much market power."

Whitacre has a tactic to win over regulators: He promises to jump into local calling markets in major cities outside the SBC-Ameritech region. He's offering to spend \$200 million a year installing switching and renting network capacity. SBC says it expects to grab 5% to 10% of the customers now held by BellSouth, U S West, and Bell Atlantic by 2010. That may not be likely, given the \$200 million SBC is budgeting. But if regulators want more, SBC, which will have revenues topping \$43 billion post-merger, is willing to ante up. "We will be the first company to go national with [local] service for both residential

and business customers," says Ellis.

Skeptics question SBC's motives. "They could have done this before," scoffs Gary Miller, CEO of telecom consultants Aragon Consulting Inc. He calls the pledge to pursue local service nationwide "a marvelously silver-tongued spin." Some analysts see SBC's plan as a response to the inroads competitive newcomers have made in targeting lucrative business customers on SBC's turf.

Will Whitacre and regulators come

to terms and make the deal happen? Even those who give the merger a solid chance of succeeding say the hurdles will be high. "There's a presumption on the part of SBC and regulators that each will have to give up a pound of flesh. The question is, are they using the same scales?" says J.P. Morgan Securities Inc. telecom analyst Simon Flannery.

Still, there's no doubt Whitacre has changed the terms of the deregulation debate. If, as SBC now says, it's willing

to compromise on the issues that have most crippled deregulation, the deal just might get local-service competition steaming. But if it sputters, some analysts think Whitacre will go after even bigger deals—in Canada or into alliances with European telephone giants. One way or another, the idea of local-service company will never be the same.

By Gary McWilliams in Houston and Peter Elstrom in New York, with Roger O. Crockett in Chicago

MORE TELECOM MERGERS, MORE UNION CARDS

Merger waves, like the one washing over the telecom industry, are rarely good news for unions or employees. Unions usually suffer from cost-cutting, job losses, and declining membership. But the Communications Workers of America (CWA) thinks it can turn such hookups to its benefit—because companies now need labor support and labor peace to complete deals.

This spring, in contract talks for

400,000 telecom workers, the union has added a new demand: that companies not interfere with the CWA's efforts to organize workers in high-growth—but mostly non-union—areas such as wireless-phone and Internet services. On Apr. 8, the CWA won this concession from SBC Communications Inc. and repeated the victory on May 11 at AT&T, which last year tried to merge with SBC. It's close to similar pacts, says CWA President Morton Bahr, with Bell Atlantic Corp. and Ameritech Corp., which says it will follow the lead of its merger partner, SBC.

If the strategy succeeds, the CWA may pull off something no union has managed in decades: to reverse its declining share of an industry workforce. The CWA's push is also a test of a new strategy of AFL-CIO President John J. Sweeney: to use union bargaining muscle to demand that employers not

oppose membership drives. In the past, labor leaders reasoned that workers would not put union growth ahead of pay hikes. Now, Sweeney argues that members can't sustain high pay unless a union maintains and increases its membership. "Demanding organizing rights offers the best hope for us to be a force in the economy again," says AFL-CIO Organizing Director Richard Bensinger.



McINTYRE: Now AT&T wireless workers can be unionized

Already, the SBC and AT&T pacts make 20,000 wireless workers eligible for unionization. The CWA could gain even more if merger mania leads unionized companies to snap up non-union ones. "These agreements open the way for us to organize thousands of jobs in the future," says Bahr.

They also lead to higher wages—and higher company costs. So why have companies agreed? As usual, companies want to avoid strikes in such competitive times. But the CWA has also shown that its clout can help—or hurt—companies trying to win deal approval from regulators.

For example, the CWA is lobbying fiercely against the WorldCom-MCI merger—an alliance of two major nonunion carriers. But, union officials say they won't oppose SBC's purchase of Ameritech. "We're a highly regulated industry and . . . it's good to have the people you hinge your success on support you through political battles," says AT&T Labor Relations Vice-President Mary Anne Walk.

Certainly, SBC's experience shows it's better to have this union on your side. For five years, the CWA harassed SBC for the right to organize wireless workers, picketing local offices and opposing company motions before state and regulatory bodies. Finally, SBC agreed to recognize the union without a formal election when a majority of employees at a unit sign union authorization cards. The pact, covering 6,000 wireless workers, was renewed on Apr. 8, when SBC struck a new three-year contract with the union.

DECLINING SHARE. The new AT&T deal represents an even bigger victory. At AT&T, the union's share of employment has been sliced in half since 1984, to 37%. The reason: massive job cuts, plus expansion into wireless and other nonunion areas. "We're shut out from those jobs," says Deborah T. McIntyre, a CWA member and customer service representative in Atlanta.

Given its success in maintaining higher wages in the face of an industry transformation, the CWA started from a strong position. But as more industries consolidate, other unions may follow CWA's lead.

By Aaron Bernstein in Washington



The feet of a six foot tall, two hundred pound runner will absorb roughly 352,000 pounds of stress per mile. Unless DuPont Hytrel® helps absorb it first.



www.dupont.com



Better things for better living

Hytrel® is a DuPont registered trademark for its brand of thermoplastic elastomer. Only DuPont makes Hytrel®

COMMENTARY

By Susan B. Garland

JUSTICE VS. MICROSOFT: WHO'S GOT THE EDGE?

For months, the Justice Dept. has been agonizing over whether to pursue a new antitrust case against Microsoft Corp. Now that the agency is all but certain to do so by May 15—barring a last-minute change of heart by antitrust chief Joel I. Klein or a settlement with the company—the agency has something new to lose sleep over: how to win.

By any measure, trustbusters face long odds. Monopolization cases are so daunting that Uncle Sam has brought only two in the past half-century. AT&T settled and split into nine parts. IBM held out, and—after 13 years and 700 trial days—Justice dropped its case.

Microsoft will probably follow IBM's lead—fielding a small army of high-priced litigators and tying up the department in time-consuming court motions. The ugly fight between Microsoft and Justice over the 1995 consent decree could be a preview of things to come.

On the other side, Justice isn't suited for a marathon. Justice officials estimate the case would take several years to litigate, and that's optimistic. More likely, by the time a trial concludes, Klein and his regime will be long gone from the Antitrust Division.

PREDATORY? Then there are the hurdles created by the case Justice is preparing. While Microsoft may be a monopoly, that in itself is not illegal. Justice must show that the company has used predatory tactics. That won't be easy. The precedents, including the Supreme Court's landmark 1977 *Continental TV vs. GTE Sylvania* decision, enshrine a *laissez-faire* approach under which it's difficult to attack a dominant firm's business practices.



JUSTICE DEPT.: *Facing a marathon*

As a practical matter, Klein has two choices. First, he can try to show that the intent of Microsoft's practices is to eliminate competition—not to help customers. For this, he would need documents or whistle-blower testimony to establish motive.

Klein's fallback argument: He can argue that the harm from Microsoft's practices outweighs any benefit to consumers and in the long run thwarts potential rivals that could make better products. Here again, he will have a hard time convincing the court: In a 1979 case, a

film retailer lost its argument that Eastman Kodak Co.'s decision to change its film design—making it usable only in its own cameras—would hurt consumers. The court sided with Kodak, ruling that legal interference can stifle incentive to innovate. Microsoft will inevitably argue that integrating the browser and operating system makes computing easier. “[Making marketplace predictions] are the hardest judgments for an antitrust enforcer to make,” says Washington lawyer Caswell O. Hobbs. “You are trying to imagine the ‘what ifs.’”

PROVE IT. It's also difficult to convince a court that a company chooses a particular product design to harm competitors. That was the repeated charge against IBM in private antitrust suits in the 1970s, notes William E. Kovacic, antitrust professor at George Mason University School of Law. Makers of so-called “plug-compatible” computer equipment accused IBM of deliberately changing its interfaces—the plugs—on mainframes to slow down makers of IBM-compatible peripherals. IBM maintained that the changes improved performance—and the courts ruled in IBM's favor each time. “The likelihood of victory in the courtroom is less than 50-50,” says Kovacic. “The law since the 1970s has given defendants considerable freedom to choose pricing, product development and promotional strategies.”

No matter what the odds, though, Justice feels that it must go ahead. Win or lose, the trustbusters know that the Microsoft case will help establish how antitrust rules will work in the new high-tech economy.

Garland covers legal issues in Washington.

Hurdles For the Feds

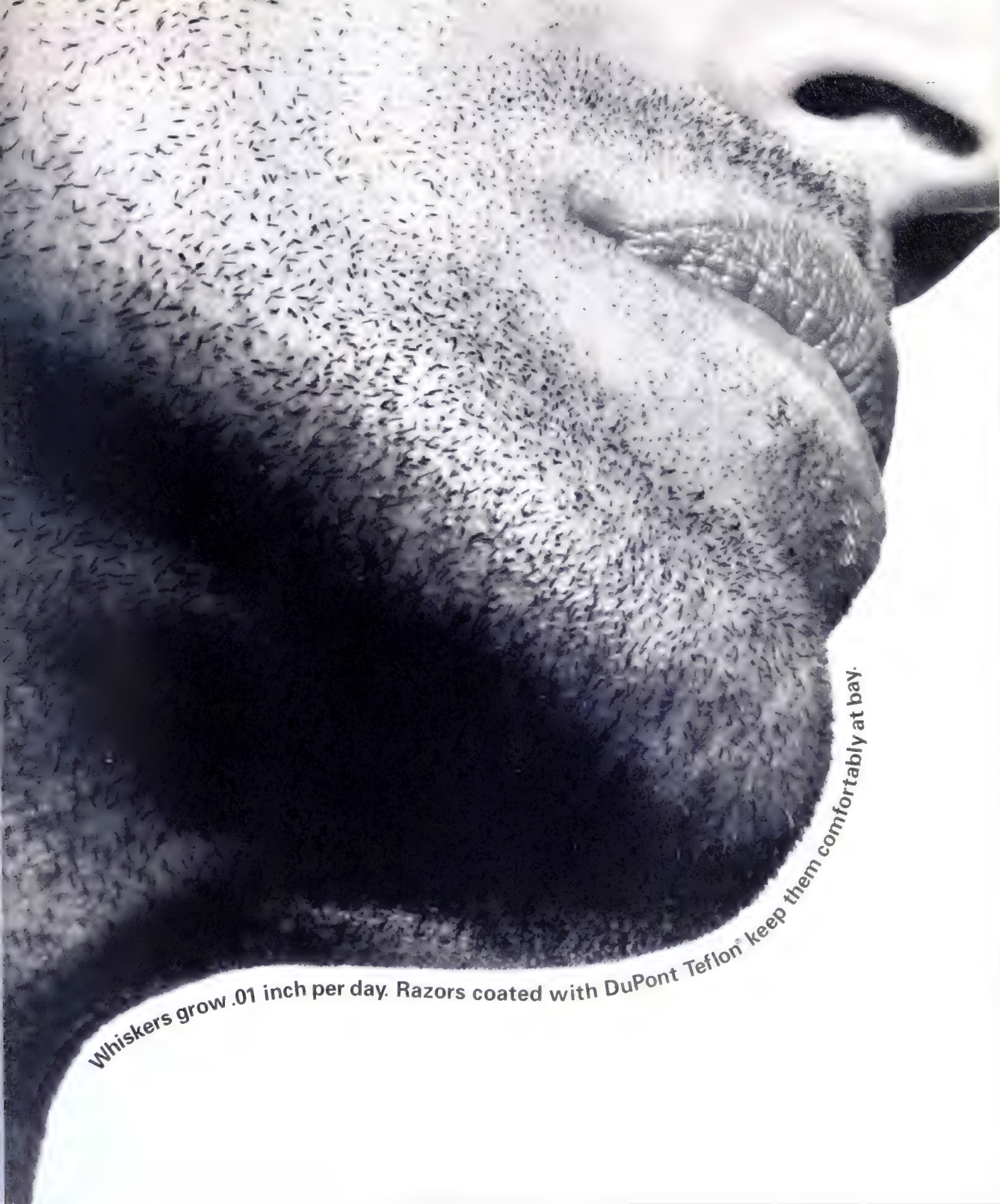
THE LAW Justice's antitrust theories are untested. A federal judge may refuse to rule against Microsoft, since it's hard to prove consumers have been harmed.

THE OPPONENT Justice has dozens of lawyers on the Microsoft case, but the company can afford to hire even more—who could outpace the government team.

THE CLOCK A major antitrust suit could last five years or longer. By the time the case reaches a jury, Joel Klein and his team may have moved on.

When the Justice Department files its suit, look for special coverage at www.businessweek.com.

BusinessWeek **ONLINE**



Whiskers grow .01 inch per day. Razors coated with DuPont Teflon® keep them comfortably at bay.



www.dupont.com



Better things for better living

Teflon® is a DuPont registered trademark for its brand of coatings. Only DuPont makes Teflon®. © 1997 DuPont

MARKETING

LITIGATION: THE CHOICE OF A NEW GENERATION

Stymied in the cola wars, Pepsi goes to court

PepsiCo Inc. has tried just about every competitive tactic to get out ahead in soft drinks, to no avail. So the perennial No. 2 beverage company is turning to the courts for help. Pepsi filed a lawsuit in Manhattan's U.S. District Court on May 7, charging that Coca-Cola Co. is using its superior size to squelch Pepsi's push into the important "fountain" market—restaurants, theaters, and sports arenas.

Way behind internationally and at a grave disadvantage domestically, Pepsi is doing whatever it can to recover in the cola wars. The latest litigation is the fourth time in two years that the company has taken legal action against its archrival. Despite their intense rivalry over the last century, Coke and Pepsi had almost never sued each other until lately. But now Pepsi has taken legal action against Coke in Venezuela, France, and India, as well as in the U.S.

What can Pepsi hope to gain? Even if his lawyers don't prevail in court, Chairman Roger Enrico wins headlines Pepsi wouldn't get from simple market competition, and he signals a newfound aggressiveness. But the legal moves also underscore just how far behind Pepsi is. Says Gary Hemphill, vice-president at consultants Beverage Marketing Corp.: "They've found obstacles everywhere they've turned."

GETTING TOUGHER. Pepsi's share of the domestic soft-drink market has been stalled just below 31% throughout the 1990s. Meanwhile, Coca-Cola's market share has increased from 41.3% in 1991 to 44.1% last year, and the company aims to reach 50% by 2002—a goal that analysts say may be overly ambitious in that time frame but is possible at some point. Overseas, Pepsi leads its adversary in only a few countries and it has lost ground in some major markets. For example, it used to have an exclusive franchise in the old Soviet

Union. But now it lags in that region as well.

Under Enrico, who took charge in early 1996, Pepsi has gotten tougher. Enrico has focused his strategy on regrouping on the home front, reducing long-term debt by 40% to \$4.9 billion and launching a major new marketing initiative. As part of the shift in focus, he

currently is targeting only those foreign markets where Pepsi has a chance, such as India, leaving the rest to Coke for the time being.

A key part of Pepsi's North America push is the fountain market. Until last year, Pepsi hardly bothered to compete in fountain. The reason was its ownership of three big restaurant outfits: KFC, Taco Bell, and Pizza Hut. Other food chains fig-

ured they would be subsidizing this trio of competitors if they sold Pepsi. So last year, Enrico removed the impediment by spinning off his eateries, which now form Tricon Global Restaurants Inc., and began beefing up his fountain effort.

If Pepsi can gain ground anywhere, it should be in the fountain market, since this is the only big beverage distribution channel that's growing. Fountain now accounts for 27.3% of all U.S. soft-drink sales, up from 24.8% in 1991. "Getting into the fountain area is critical in developing the Pepsi brand," says

Robert C. Cushing, president of Pepsi-Cola General Bottlers Inc., the top independent Pepsi bottler. And indeed, Pepsi has scored some wins, signing up Hard Rock Cafe, the Bojangles chicken chain, and 25% of Wendy's franchisees. Trouble is, as Pepsi freely admits, progress is much more difficult to come by here. With major chains like McDonald's Corp. and Burger King Corp. firmly in hand, Coke holds two-thirds of the fountain market. Pepsi, whose only major chain is Subway, has mere 20%.

Pepsi's May 7 lawsuit charges that Coke has thrown illegal obstacles in its path. Pepsi alleges that Coke threatens to cut off supplies to food-service distributors which provide restaurants with everything from napkins to ketchup and soda syrup, if they dare do Pepsi. The upshot, says Pepsi, is that many distributors refuse to supply Pepsi even to restaurants that want it. "Why limit restaurants' choice?" asks Vince Gennaro, chief of Pepsi fountain operation.

Coke admits it occasionally dangles distributors that carry Pepsi, but even has language in its contracts with them saying offering Pepsi is a "conflict of interest" for them. Coke says its foe has many ways of getting soda to fountain customers, such as by selling to them directly. Pepsi says that's bunk since most restaurants only want to deal with one distributor for all their supplies.

It's hard to gauge the validity of Pepsi's complaint because the company provides no names of victimized

distributors. Pepsi says that if they will be revealed as the cause of stagnation progress. But some sizable distributors say they have not experienced any fallout from Coke. Says a spokesman for \$500 million Alliant Food Service Inc.: "We can do both Coke and Pepsi with no problem." A judge agrees, Pepsi's challenge will be kicked out of court and back into the market.

By Larry Light
New York and Don Greising in Atlanta

COKE SIZZLES, PEPSI FIZZLES



The tongue has 20,000 highly sensitive
taste buds. Packaging made with
DuPont Surlyn® keeps food fresh.



www.dupont.com



Better things for better living

Surlyn® is a DuPont registered trademark for its brand of packaging resin. Only DuPont makes Surlyn®.

BIOTECHNOLOGY

GRAINS THAT TASTE LIKE MEAT?

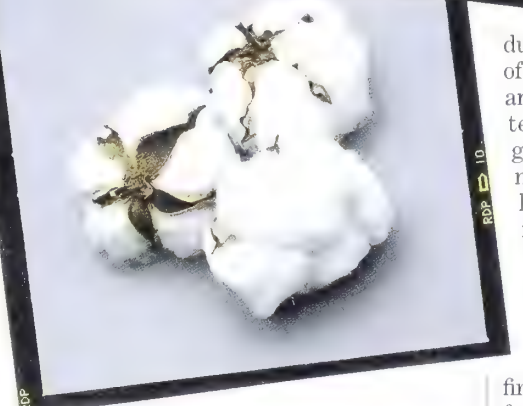
Monsanto and DuPont are pouring billions into "life sciences"

Organically grown plastics. Genetically engineered, disease-resistant crops. Cancer-preventing proteins. These are the real and promised products of an entirely new industry—"life sciences"—that brings together agriculture, biotech, and pharmaceuticals. Almost nonexistent two years ago, life sciences is taking off. Industry pioneer Monsanto Co. will plant 50 million acres this year with herbicide- and insect-resistant corn, soybeans, and cotton.

Now, Monsanto and others are on a multibillion-dollar buying and alliance frenzy to grab the lead in this new world of genetic engineering. The industry was already generating big buzz among investors. Then, on May 11, chemical giant DuPont Co. announced that it would begin divesting its \$22 billion Conoco Inc. oil-and-gas unit, with much of the capital raised to be reinvested in the company's biotech agriculture and pharmaceutical businesses. And Monsanto, after spending \$2.5 billion over the past two years on deals in life sciences, agreed to spend \$4.2 billion more—\$2.3 billion to purchase the 60% of grain-seed producer DeKalb Genetics that it doesn't already own, and \$1.9 billion to acquire cottonseed producer Delta & Pine Land.

GOING ABROAD. The rich valuations are one measure of how hot this industry is becoming: Two years ago, Monsanto paid \$170 million for its 40% stake in DeKalb. "This is not just a research phenomenon anymore. It's real," says Monsanto President Hendrik A. Verfaillie. So he's turning his sights overseas to find still more deals. "I don't think we're done."

The message resonates loudly with Dupont CEO Charles O. Holliday Jr. In the past year, DuPont has spent \$3.2 billion to acquire a 20% stake in a top seed-technology company, Pioneer Hi-Bred International, and to buy all of soy-protein supplier Protein Technologies International. Holliday's spin-off of Conoco will allow him to accelerate that dealmaking. He wants life sciences to generate 35% of the company's af-



A REENGINEERED LANDSCAPE

Analysts believe Novartis, Hoechst, Schering, Cargill, and ADM will seek alliances to exploit the booming field

ter-tax operating income by 2002, from 20% last year, excluding the oil-and-gas business. "Biotechnology will be the technology for the first half of the next century," says Holliday.

The next step, some Wall Streeters are betting, could be the combination of the two leaders: DuPont buys Monsanto. Or DuPont could do a deal with British Zeneca PLC or American Home Products. Indeed, analysts figure alliances and deals are highly likely among the players with big ambitions—including Novartis, Hoechst, and Rhône-Poulenc—despite the fact that big profits in the industry are several years away. "These are mergers waiting to happen," says Bear, Stearns & Co. analyst J. Jeffrey Cianci. Beyond that, analysts and company executives predict alliances, if not outright mergers, among giant food processors from Archer Daniels Midland Co. to Cargill Inc.

FOOD FRIGHT. The driving force is technology that is allowing scientists to alter genes in plants and animals. Scientists are already moving beyond seeds that have healthier oils or that can resist herbicides. Monsanto, for example, is working on a cottonseed that can produce its own color, while DuPont is working on grains that can look and taste like meat. "We're moving to value-added products," says Greg May, a researcher at Boylston Thompson Institute for Plant Research at Cornell University.

Before those new veggie burgers hit stores, however, the industry may have to allay the concerns of consumers and regulators in the U.S. and Europe. For now, the debate centers on whether food produced from gene-spliced seeds should carry labels noting that. "The people at the Food and Drug Administration will hear a lot more from the environmental community on labeling," predicts Margaret G. Mellon, a biotech expert at the Union of Concerned Scientists.

DuPont's Holliday acknowledged that fighting those efforts could backfire. "If we don't do the job right in front, there's always the risk that [market growth] could go slower than we think," he says. For the companies pumping billions into life sciences, that would be a bitter harvest indeed. For now, the sprout is thriving.

By Richard A. Melcher in Chicago and Amy Barrett in Philadelphia, with Andrew Osterland in Chicago



The smartest executives
all have something in common.

They love a no-brainer.

		
UP TO \$11	UP TO \$11	\$3*

What's Your Priority? 

FC/3

Priority Mail™ is the smartest decision any executive can make.

1-800-THE-USPS ext. 2003

<http://www.usps.gov>



We deliver.

*Priority Mail average delivery of 2-3 days. Price comparisons based on Priority Mail up to 2 lbs. vs. 2-lb. published rates for FedEx 2DaySM from \$7.50 to \$10.50 and UPS 2nd Day Air[®] from \$7.25 to \$10.75. ©1998 U.S. Postal Service

EDITED BY KELLEY HOLLAND

SUITORS BUZZ AROUND POLYGRAM

PHILIPS ELECTRONICS CHAIRMAN Cor Boonstra had plenty of callers when he arrived in New York on May 11. Representatives from Seagram and the team of Forstmann Little and buyout company Thomas H. Lee stopped by to discuss their bids for Polygram, home to such recording superstars as Elton John and U2. Polygram's value skyrocketed after Seagram Chairman Edgar Bronfman Jr., who is looking for a major record label to team with Universal Studios, decided against making a bid for recording company EMI because of price. The far better-managed Polygram, which is

75%-owned by Philips, is the only major nonallied record company left. The bids are believed to run upwards of \$10 billion—for a company with a current market value of roughly \$9 billion.

WHY BOEING BIRDS FLY SOUTH

THE AIRFIELDS IN BOEING'S south Puget Sound facilities look more like parking lots these days as the Seattle aerospace giant doubles production of next-generation 737s from 7 to 14 a month. So Boeing is sending 10 of the new-model 737s down to Long Beach, Calif., for finishing work. Boeing pumped out planes before FAA and European certification was completed and the company is still struggling to install costly changes in more than 20 jets. The retrofit work has cost Boeing \$656 million so far. Boeing will decide by this summer whether to move more 737 work south.

SHOOTING DOWN A SATELLITE DEAL

THEY'RE CELEBRATING AT THE headquarters of satellite companies DirectTV and EchoStar. Why the party? The Justice Dept. on May 12 filed suit to block cable-controlled Primestar's planned purchase of a satellite slot owned by MCI and News Corp. Under the deal, Primestar would have gotten a prize satellite slot controlled by News Corp. and MCI Communications for its expanded direct satellite offerings. But Justice said the combination would give cable giants—including TCI and Time Warner, which control Primestar—undue power. Primestar vows to fight the suit, and it's going ahead with a planned \$400 million bond deal to fund expansion.

HEADLINER: PHILIP KNIGHT

NIKE FINALLY DOES IT

After years of pressure to stop abusive practices in Nike's overseas plants, CEO Philip Knight has decided to revamp labor policies. In doing so, he becomes the one applying pressure—on other U.S. companies to match his new standards. On May 12, Knight pledged to raise the minimum worker age and let human rights groups help monitor its foreign plants, which employ half a million workers. Nike also will issue summaries of the groups' conclusions and use U.S. safety and health standards.

While Nike hasn't spelled out crucial details,

such as how human rights groups will get plant access, activists cautiously applauded. Knight's

pledges go further than other companies'—and could prompt action from President Clinton's apparel-industry task force on sweatshops. That group

hasn't agreed on key issues such as monitoring. Meanwhile, critics wait to see whether other companies, such as Levi Strauss will fall in line. "Nike's move will give us more leverage," says Medea Benjamin, head of Global Exchange, a San Francisco watchdog group.

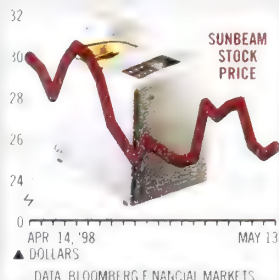
By Aaron Bernstein



CLOSING BELL

CUTTING REPLY

Chainsaw Al is back—but Wall Street isn't applauding. On May 11, Sunbeam head Al Dunlap unveiled the second restructuring in 18 months. He'll combine facilities at the Signature Brands, First Alert, and Coleman lines. The toll: 5,148 jobs, 8 factories, and 33 warehouses. Instead of cheering, the market frowned at Sunbeam's surprise operating loss. Investors "don't take kindly to guys who set the bar pretty high and miss it," says Justin Maurer, analyst at McDonald & Co. The stock slid 2½% on the news, to 25%.



JOHN HANCOCK SIGNS TO GO PUBLIC

THE SIREN SONG OF THE public market is luring another mutual life insurer to Wall Street. On May 12, the board of 136-year-old John Hancock Mutual Life voted to convert from a mutual, run as a cooperative and owned by policyholders, to a stock-issuing company. While only a few major mutual insurers have decided to go public, most are expected to convert in coming years to seek the capital to keep up with rivals in financial services. Metropolitan Life is seen as the next candidate, but executives say nothing's in the works yet.

NEW FACE AT BODY SHOP

CONSERVATION MOVE? THE Body Shop, the famously eco-friendly cosmetics retailer, announced on May 12

that co-founder Anita Roddick will step aside as chief executive and join her husband as co-chair. Roddick, one of Britain's best-known and most outspoken businesswomen, will be replaced July 14 by Patrick Gournay. Groupe Danone executive Body Shop is also launching a joint venture to run its U.S. business with director Adrian Bellamy. The changes are aimed at reviving sales in the U.S., where the company lost \$8.3 million in 1997.

ET CETERA...

- Intuit named former met executive William Harris as its new CEO.
- Rate hike: The postal commission called for a first-class stamp hike of 1¢.
- AT&T, MCI, and others seek to stop U.S. West's long-distance plan.
- Bay Networks spurned Northern Telecom bid and will consider other offers.



Two for the road.

Introducing the Intel® Pentium® II processor for mobile PCs.



pentium® II

The Pentium® II processor is now available in mobile PCs. Which means you can have the best of both worlds: the performance of a desktop PC and the ability to take it anywhere. So go test drive a new mobile PC with an Intel® Pentium II processor and pull into the fast lane. For more information, visit our Web site. www.intel.com/mobile/PentiumII

intel®

The Computer Inside.™



OUR SOFTWARE IS PULLING TOGETHER THE BIGGEST SINGLE SPORTING EVENT IN HISTORY.



The 1998 World Cup Soccer Tournament is one of the largest media events of all time, with a cumulative television audience of billions. Not to mention 100 million spectators, 12,000 volunteers and 12,000 media representatives. They'll need up-to-the minute information about everything from results to schedules to tickets. Like any business, the World Cup also has accounting, human resource, security and e-commerce needs. And Sybase software is behind it all.

With a Web site (www.france98.com) that may be the most visited in history, capable of handling more than 100 million hits a day, and providing everything from statistics to souvenir sales. So if we can do all that, surely we can keep your company's information systems in top shape.

To learn more about the technology used to make the World Cup a success and to find out about our World Cup Information Anywhere Enterprise Solutions tour, visit www.sybase.com/events or call 1-800-8-SYBASE (Ref. CPBU).



FOR MORE INFORMATION, VISIT WWW.SYBASE.COM

sybase.com

EDITED BY OWEN ULLMANN

AS BOB RUBIN CRIED WOLF FINANCE TOO OFTEN?

He may be Corporate America's favorite Clinton Cabinet member. He's a fervent free-marketeer. And he's helping to guide the economy through one of its longest expansions in history. So why is Treasury Secretary Robert E. Rubin about as welcome on Capitol Hill as a tobacco lobbyist with a long memory?

Simple. GOP leaders hate what they see as his hardball partnership and patronizing style. And they're still smarting over the way he outfoxed them on issues such as the 1995-96 budget showdown and a Hill push for speeding tax cuts. "His credibility is low," grouses House Majority Leader Richard K. Armey (R-Tex.). "We have to take everything he says with a grain of salt."

Now it may be payback time: Republicans are threatening to deny Rubin a say on everything from new financing for the International Monetary Fund to reform of Depression-era banking laws.

The biggest casualty may be the administration's request for \$18 billion to help the IMF cope with Asia's economic crisis. House GOP lawmakers bristled when Rubin predicted—in a private meeting early this year—an Asian financial collapse within six weeks if Congress didn't send money without strings.

BREWING. But the GOP dismissed such talk—and delayed action on the package. Now, as violence rocks Indonesia (p. 53), Republicans are feeling vindicated because they demanded major IMF reforms to increase the financial stability of corrupt regimes. "He has become the Chickadee of Washington," says a senior GOP staffer. "He thinks he can trick Congress. We're not that stupid."

Rubin is also brawling with Republicans as they consider a overhaul of banking laws. GOP leaders say distrust of him is one reason that the House voted on May 13 to give

the Federal Reserve chief regulatory authority, not the Treasury, as Rubin demands. And while crafting the final version of an Internal Revenue Service reform package that Rubin initially fought, Senate Majority Leader Trent Lott (R-Miss.)—another Rubin basher—has toyed with the idea of removing him from the proposed IRS oversight board.

Clintonites praise Rubin's performance as Treasury chief, but they acknowledge his problem with the GOP. "Bob fights to the end for the things he believes in," says White House Chief of Staff Erskine B. Bowles. "They think he's very tough, unyielding. A worthy opponent like that ruffles feathers." Rubin concedes that "there have been a lot of contentious issues" pitting Treasury against the Hill. But, he says, "we've worked exceedingly well with a large number of Republicans in both houses."

SOUR GRAPES? In fact, bad feelings have been brewing since the stormy days of the budget standoff, when Rubin infuriated GOP leaders by warning that Congress was pushing the government toward default and a cutoff of Social Security checks—though neither was

likely. Republicans suffered a public-relations bloodbath. "The bitter feelings still linger," notes a GOP leadership aide.

Democrats say Republicans are just frustrated because Rubin has bested them. "He is the most effective Secretary of the Treasury I've had the pleasure to work with in my 23 years here," says Representative John J. LaFalce (D-N.Y.), the House Banking Committee's ranking Democrat. And a former Rubin aide says the GOP gripes are merely sour grapes: "He's more credible on Wall Street than they are." Indeed, Rubin may still hold sway on the Street and at the White House. But he has lost his clout on the other end of Pennsylvania Avenue.

By Richard S. Dunham, with Dean Foust



RUBIN predicted an Asian collapse

CAPITAL WRAPUP

DOOR TO DONORGATE?

Attorney General Janet Reno may have opened a can of worms on May 1 when she asked for an independent counsel to investigate allegations that her Secretary Alexis M. Herman violated campaign-finance laws. The move could be bad news for Democrats if it is expanded to look at whether other Clinton officials solicited illegal foreign donations.

A key allegation against Herman—she denies any wrongdoing—involves her role in soliciting contributions in

1996 from a Singapore businessman who was then seeking a Federal Communications Commission license. The businessman was a client of Vanessa J. Weaver, a close friend of Herman. Weaver had bought out Herman's consulting business after Herman took a senior White House job.

In October, 1996, Weaver accompanied her client to a Virginia fund-raiser where—with Herman's help—they met President Clinton. The

client then allegedly made a \$250,000 donation through Weaver. Weaver contributed \$240,000 to the Democrats in 1996 but denies laundering her client's money. The charges, made by an ex-partner of Weaver, resemble the pattern of foreign fund-raising during President Clinton's reelection campaign: Democratic officials allegedly sought hefty donations from foreign nationals seeking to do business deals in the U.S.

By Paula Dwyer



HERMAN denies wrongdoing

INDIA

AND NOW FOR THE FALLOUT

India's tests may bring more trouble than it bargained for

If India was after attention, it got it. But if it was after respect, it may have failed miserably. Shocking the world with a series of nuclear tests beginning on May 11, India seemed to be trying to propel itself into the ranks of the nuclear powers. Instead, it found itself a pariah as the U.S. imposed sanctions and Japan cut off development aid to New Delhi's two-month-old government. Indian Prime Minister Atal Bihari Vajpayee may have given nationalists reason to cheer with its bold move to elevate itself onto the world stage. But India now faces grave consequences.

The implications for India's economy and the U.S. companies that do business there are already starting to pile up. The U.S. sanctions, if implemented in concert with other nations, could reduce India's \$350 billion gross domestic product by 2%—a considerable figure for a developing nation struggling to attract foreign investment. With much of Asia reeling from financial crisis this year, India was in an excellent position to be a safe haven. Now, investors unable to secure financing for new projects will join the capital flight out of Asia. "It's a lost opportunity," says Guonan Ma of Salomon Smith Barney in Hong Kong.

BIG BITE. At the same time, India has shifted the delicate balance of Asian politics. India is trying to pose itself as a nuclear counterweight to China while casting China as a potential enemy. And India's atomic tests have upset the world's already precarious nuclear containment policy. Even though India says it now intends to sign a nuclear test ban agreement, President Clinton's ballyhooed visit to India in No-

vember is in question. And Clinton will now seek a unified approach among members of the G-8 during the summit in Birmingham, England, on May 15-17. Germany and Japan have already indicated support.

The duration of the sanctions, effec-

sanctions, the U.S. is required to halt about \$1 billion a year worth of Export-Import Bank and Overseas Private Investment Corp. (OPIC) loans, as well as U.S. bank loans to the Indian government. Companies such as General Electric, Bechtel, and Enron will be unable to find the cheap loans on which their Indian ventures depend. Enron, for example, financed 25% of the first half of a \$2.5 billion power plant in Maharashtra state with such loans. But funds to complete it are now in jeopardy. While other sources of financing are available outside the U.S., they carry interest rates about 2% to 3% higher.

Even though foreign direct investment in India is quite small, accounting for less than 1% of its GDP, India has been trying to catch up with China as a destination for international capital.



Vajpayee's move gave nationalists something to cheer about, but Clinton promptly imposed sanctions that will really sting

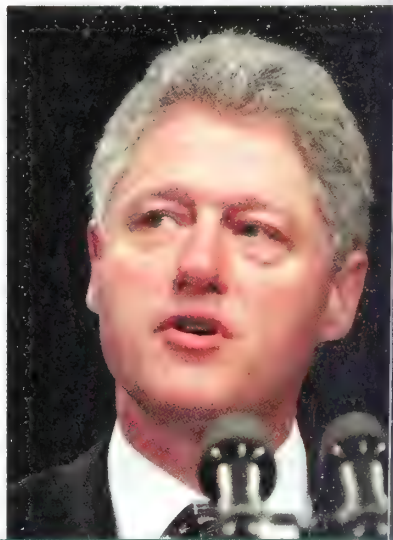
WHERE INDIA WILL FEEL THE PAIN

WORLD BANK LOANS India has \$14.5 billion in loans outstanding; another \$8 billion may now be in jeopardy.

U.S. CREDITS Ex-Im Bank and OPIC loans fund billions in infrastructure projects, many built by U.S. companies.

JAPANESE AID Tokyo, the largest donor, with \$1.2 billion last year, cut new loans and canceled an aid conference expected to raise \$4 billion.

INVESTMENT Projects depending on U.S. credits or licenses, by Lockheed Martin, Boeing, Enron, Bechtel, and others, could now be canceled.



tive as of May 13, will determine how severe the impact will be. They can only be lifted by a vote in the U.S. Congress. "If this is a permanent cut of 2% of India's GDP forever, it's very serious," says Joydeep Mukherji of Standard & Poor's. "If it's six months to a year, the impact will be smaller." Under

attracted just \$3 billion in 1997—net a third of it from the U.S.—compared with China's \$43 billion. Now, it will be even further behind. "The risk premium of India has just gone up," says Sudhakar Oberoi of Capital International, Inc.

In addition, the sanctions demand a U.S. vote against approval of

By Manjeet Kripalani and Dexter Roberts

WHAT INDIA NEEDS IS WEALTH, NOT BOMBS



Sure, China has nuclear missiles—but the West is much more impressed with its astounding growth

For the Bharatiya Janata Party, the nuclear tests the government conducted on May 11 were designed to show that India was every bit as powerful as China. Feeling ignored and unappreciated, India figured it was time to show some muscle. After all, authoritarian China with its dismal human rights record, its recent nuclear tests, and its bullying of Taiwan, wins respect even from the U.S. "If you want to get the attention of America, you've got to figure in its nightmares, not in its dreams," says one Indian businessman and BJP supporter. With Indian citizens celebrating in the streets, the BJP hailed the tests as "a cause for national pride."

Well, the pride stops at India's borders. That was clear from the world's response and the sanctions the U.S. quickly imposed. India has made a serious mistake, and it must learn that it cannot imitate China's tactics and expect China's success.

Certainly their nuclear arsenal is one reason the Chinese get respect in Washington, Tokyo, and elsewhere. But Western policymakers now view China as a potential superpower because of its astounding economic growth, its influence in global trade, and the size of its market. This wealth translates into big clout. Thus, foreign ministries in Japan and Europe tread lightly when China commits human rights abuses and supplies arms to rogue states. The U.S. sometimes sharply condemns Beijing's abuses. But in the end, the importance of the economic relationship always forces the White House to moderate its stand. That's a cold calculus. This is the realpolitik of an age when economic links are of paramount importance.

India does not have this leverage. While China has been developing its economy for the last two decades, India has only been making serious efforts to open up its markets since 1991. It's true that many foreign investors in China complain loudly about red tape and uncertain local partners. Yet the Chinese have managed to maintain enough momentum to keep investors coming in. For example, China recently banned direct sellers such as Avon Products Inc. But at the same time, China has signed off on major new projects with Intel Corp. and L. M. Ericsson. Thus, top companies in the U.S., Europe, and Japan will lobby their governments to give China the benefit of the doubt. China can also count on Hong Kong and Taiwan to invest billions on the mainland. India has none of these advantages.

India has many things going for it. Some foreign investors such as Bechtel, Enron, and General Electric have found ways to succeed there. India also has a high-tech sector that's more competitive than anything the Chinese have created. India should nurture these businesses and accumulate real economic power. Then it would stand a chance of winning the respect it craves.

Kripalani covers Indian business from Bombay, and Roberts covers China's economy from Beijing.

ld Bank loans. Nearly \$2 billion ch are still pending this year, and her \$6 billion are planned over the two years. The halted loans would primarily to building power and high-projects, and agricultural and th-care projects would be spared. Japan and some European nations e already taken a hard line. Japan, example, has canceled low-interest loans and other development assistance. Such aid totaled \$1.2 billion last t. It also canceled an annual donors erence scheduled for Tokyo on June at was expected to generate about illion in aid pledges.

MISSING CONCERN. India's Hindu nationalists gave hints of this kind of bel-erence before, but no one expected they would go so far. The Bha-ya Janata Party (BJP), when it won tions and formed a coalition in ch, made some noises about restart-a nuclear program. But the more sing concern was that they would r some foreign investment—in the umer-products sector. Ironically, the pledged to welcome foreign in-ors doing infrastructure projects—er plants, roads, and refineries. Now those very projects that are in ardy for lack of financing.

vestors are worried not just about tions but that military outlays might increase India's government spend-The deficit is already about 5.5% P, higher than economists say India afford if it wants to keep growing. eover, if the government must now on the burden of financing infra-cture projects, it will also raise ex-litures. Already, the country's th has slowed to less than 5%, well n the government's target of 8%.

ere is another concern. If India these crucial bank loans, it will have to pay some \$6 billion to ser-its foreign debt this year. So the rnmment must not only cut spending increase exports to come up with needed foreign exchange. If it is le to meet its obligations, capital could quickly destabilize the coun-And sanctions would pull away the national Monetary Fund safety net. s possible that the sanctions could mporary, that the BJP could pledge gn the Comprehensive Test Ban y and that investment could pick gain. But this is an important test for President Clinton and the fu-of nuclear nonproliferation. If other ries, including Pakistan, see India ng off lightly, the consequences really be serious.

Sheri Prasso in New York and jeet Kripalani in Bombay, Stan e and Paul Magnusson in Wash-n, and bureau reports



BELFAST SHOPPERS: The north is fast becoming a consumer society

NORTHERN IRELAND

BUSINESS JUMPS IN TO HELP TAME THE TROUBLES

Investment is flowing—and may help the peace accords stick

Every summer, Portadown, Northern Ireland, makes the news in Britain—and sometimes around the globe. Marches by Protestant Orangemen along the Garvaghy Road often lead to clashes with Catholic residents. Yet the Troubles have not stopped Ulster Carpet Mills Ltd., which employs 700 people in a complex along the same road, from establishing itself as a leading supplier of carpets to international hotels. On a recent day, the company's looms were rattling away on a \$1.3 million order for the Bellagio casino in Las Vegas, Nev.

While you might think the conflict that has plagued the British-ruled province would have made life impossible for business, companies like Ulster Carpet have soldiered on. Now, they're a key reason for optimism about the prospects for peace based on the settlement between the British and Irish governments and local political parties on Apr. 9. Northern Ireland has a strong industrial base on which to expand the peacetime economy. "Peace will make a potentially huge difference to Northern Ireland industry," says Mike Mills, Ulster Carpet's CEO.

Still, peace is not a sure thing. Although voters on both sides of the Irish border are expected to approve the peace agreement in a referendum on May 22, it is far from clear that the long-battled parties can get along.

But if the deal holds, it will speed subtle changes that have gathered pace

in recent years. Northern Ireland is fast becoming a consumer society like the rest of Europe. Its business leaders have been twisting politicians' arms to end the conflict. And its young people consider the sectarian war an anachronism.

More investment, new jobs, and trickle-down prosperity are the best hope for cementing the peace. The British government, the European Union, and the U.S. are likely to chip in aid to encourage economic growth. The British have already announced a new \$513 million jobs and small-business package. This comes on top of \$2,900 per year in government subsidies for each of the province's 1.7 million people.

But the best bet for creating lasting jobs is private investment. Among multinationals, Northern Ireland's reputation

already contrasts with its image in the press. Some \$3.2 billion has gone in new and existing plants since 1991. Dupont, Seagate Technology, and Fujitsu have all announced new investments in the last year. Investors have been attracted by subsidies that average 25% of a project's capital costs and by the inexpensive workforce—especially at a time when strong economies elsewhere make labor scarce. Says Peter Schuddeboom, vice-president of Northern Telecom Ltd., "Companies go after talent where it is."

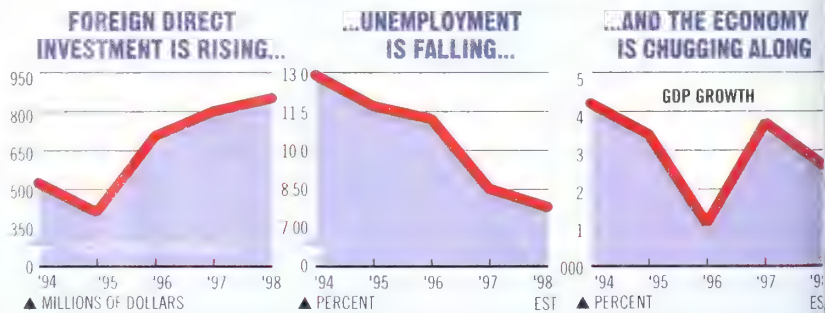
Schuddeboom supervises 300 Northern engineers at a facility near Belfast. He starts his people at \$27,000 per year, 10% lower than in the rest of Britain. But the key is being close to universities that crank out 650 software engineers per year. Nortel, which also makes switching equipment in the Irish Republic, is happy with its results in Northern Ireland. It recently announced a \$10-million expansion of its operation.

Such projects have helped cut unemployment from about 14% in 1993 to about 8% now. Economic issues are likely to become even more prominent as local politicians take on more authority. As voters prepare for the May 22 referendum and for a June 25 election for a regional assembly, business people are cautiously optimistic. Chris Gibson, chairman of Golden Vale U.K., a unit of an Irish food company, says he hopes the new setup will force politicians to perform or get voted out. Many have been "bloody irresponsible," he says.

But he concedes that the province faces a difficult transition from a security state to a private economy. Eventually, more than half of 14,000 police jobs may be cut and Prime Minister Tony Blair would like to scale back subsidies. For now, though, Blair will be reluctant to do anything that could jeopardize peace. As for Northern Ireland, having to switch from a police state to a normal economy is a nice problem to have.

By Stanley Reed in Belfast

Brighter Prospects In Northern Ireland



EDITED BY SHERI PRASSO

SUHARTO'S RISKY GAME OF DIVIDE AND CONQUER

ust when it looked as if President Suharto, 76, might finally begin to restore confidence in his underperformed economy, things turned ugly. In early May, Suharto ended subsidies on rice, driving up prices 70% and setting off riots. Then one of the country's most influential Muslim leaders, Amien Rais, urged on him to resign or to take blame for bloodshed. But, Suharto cut short a 10-day state visit to Japan. It seemed that the world's longest-serving leader after Fidel Castro might finally be losing his

game. That is possible, but it is true that Suharto is engaged in a complex and risky game to shore up his power. His moves aim to nudge Indonesia toward the breaking point in an attempt to keep himself in office. By provoking social unrest, Suharto keeps any potential coup plotters in his military busy trying to quell the turbulence. This prevents any real threat to his power and casts him as the sole remaining force keeping the nation from the abyss. Since Suharto is also following International Monetary Fund dictates, the strategy carries a bonus. It keeps his \$43 billion aid package intact. The cash will flow into Indonesia's coffers at a rate of \$1 billion a month for the rest of the year. That's enough to keep the government going and give Suharto time to sort out his political legacy for his children.

DANGEROUS RIFTS. Of course, Suharto could lose control of the game. For starters, the opposition to his rule is strengthening faster than anticipated. Riots have escalated in the capital after sweeping secondary cities such as Medan, and several students have been killed. Army generals are starting to take seriously the demands from student leaders for a dialogue on political reform. The calls are joined by Amien Rais's 28-million-member Islamic group. And the presidents' senior professors of five top government-run universities undermined legitimacy by signing a similar statement on May 10. Suharto's acts are also opening dangerous social rifts that will embolden his army commanders. On one side are Islamic extremists who, if pushed too far, could line up behind Strategic Reserve Commander Lieutenant General Prabowo Subianto. On the other are dissident nationalists, led by former Presi-



Suharto figures that generals busy quelling riots won't have time to plot against him

dent Sukarno's daughter Megawati Sukarnoputri and a group of retired generals who would support the military's other top brass, Armed Forces Commander-in-Chief General Wiranto.

So far, Suharto has succeeded in keeping these generals suspicious of each other—and thus loyal to him. For example, he named Wiranto to investigate the detention and torture of student leaders and other dissidents. If Wiranto investigates too thoroughly, diplomats say, he could implicate Prabowo. That could be dangerous because Prabowo is Suharto's son-

WELCOME DISTRACTION:
Reform can wait

in-law and commands the crack unit with which Suharto seized power in 1965. A Wiranto misstep would risk incurring Suharto's wrath. If Prabowo attempts his own power grab, he risks a nasty investigation of possible human rights abuses.

With the instability serving his political maneuverings, Suharto won't act to stabilize the economy anytime soon. Ending subsidies on fuel, while mandated

by the IMF, could have been implemented in steps throughout the rest of the year. By doing it all at once and fomenting violence, Suharto made the IMF an easy scapegoat. He can blame unrest on the West—and then show his leadership by quelling it.

Every day, Indonesia gets further removed from any economic recovery. The rupiah has plunged again, to over 10,000 to the dollar, after stabilizing near 8,000 in recent weeks. Meanwhile, the stock market's almost-daily dives are sending shock waves through the region. Normal business activity is almost completely paralyzed after the government failed to renegotiate nearly \$80 billion in private debt, another factor undermining confidence in the economy.

As long as Suharto can keep IMF aid rolling in and his foes destabilized, he may be able to prolong his 32-year stay in office. His strategy will flop only if violence rises to a level that a disheartened and increasingly ambivalent military cannot or will not put down. Then people power may take hold in the streets, and Suharto will be history.

By Michael Shari in Jakarta

PART #2138:

*No-Surprise Total
Cost of Ownership*



*For more information on our limited warranties, see our web site at www.fujitsu-pc.com

Fujitsu and the Fujitsu logo are registered trademarks and LifeBook is a trademark of Fujitsu Limited. Built for Humans and ErgoTrac are trademarks of Fujitsu PC Corporation. Intel and Pentium are registered trademarks and MMX is a trademark of Intel Corporation. Microsoft and Windows are registered trademarks of Microsoft Corporation. All other trademarks are property of their respective companies.

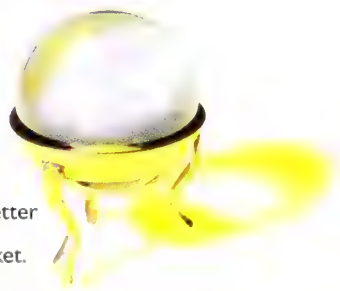
© 1998 Fujitsu PC Corporation. All rights reserved.



STORY #194:

My Wonderfully Predictable Future

LET'S just say you're the CEO of a large investment firm. You've got one eye on NASDAQ, one eye on Dow Jones and four hundred hands trying to grab the best stocks in both. You also know you have to face two hundred employees who want more money, better coffee, a parking place and notebooks that can handle a volatile market.



[*"Risk is okay in my line of work, but I sure don't need it from my notebooks,"*]

is your motto. And who can't use a little more predictability? That's why Fujitsu PC Corporation offers qualified customers LifeLine, our Lifecycle Management Program for select LifeBook™ notebooks. This unique program helps you control tomorrow's technology costs today—with options like technology upgrades, aggressive lease rates and optional warranties.* So no matter what wild ride your investments might take, you can be certain that the investment you made in Fujitsu notebooks will always be a sound one.

[*"Now we all get something we can use more of around here: security,"*]

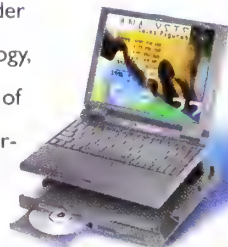
LifeLine Lifecycle Management Options

Custom Configuration to Fit Each User Requirement
12-month Technology Refresh and Asset Management
Variable Levels of Support, Including 24-hour Turnaround and Screen Protection
Project Planning and Various Levels of Delivery

you might announce. And this is one "buy" order everyone can appreciate. Leading-edge technology, reliability and technical support. Plus the peace of mind helping you understand your cost of owner-

ship. So maybe you'll never know which stocks will perform well in the future. But now you definitely know which notebook computer will.

There are millions of Fujitsu notebooks out there—each with a story of its own.



FUJITSU

FUJITSU PC CORPORATION

Built for Humans™

For more info, visit www.fujitsu-pc.com/ce
or call 1-888-4-ON-THE-GO.



COMPUTERS

BACK TO THE FUTURE AT APPLE

Can Steve Jobs do it again with a stylish and cheap new Mac?

It was staged as a reenactment of the company's finest hour long, long ago. Steven P. Jobs, Apple Computer Inc.'s co-founder, was back in the auditorium where he stood 14 years earlier when he took the wraps off the revolutionary Macintosh computer. And, just as he did then, he pumped up the crowd of some 2,000 goose-bumped employees and customers, forgoing his trademark jeans and turtleneck to make one of his rare suited appearances. But then, this was a special occasion. With

classic Jobs panache, he yanked the black cover off an ultrasecret machine.

The iMac had arrived—and with it, all the hopes and dreams of a beleaguered Apple struggling to recover its former magic. The iMac isn't a technological breakthrough. It doesn't even boast the fastest modem, the biggest monitor, or the newest software. What it struts is head-snapping style with a cheapo \$1,299 price tag. Its translucent teal casing is a bold departure from the acres of putty-colored PCs on desktops

everywhere. And its curvy lines and light-up mouse make it a fanciful, Spidey Age machine that will either be a huge hit—or a devastating dud. Gushes Jobs: "If you had just arrived back from Maui from a vacation and you saw this thing, you'd say, 'Whoa, let me guess, could it be...?' And you'd hope it would be." Apple Computer. Apple is back to its roots, starting to innovate again.

But is that enough? For all the glitz and Jobs's euphoria, there are nagging doubts about the snazzy new

The Cool-Looking iMac Must Break Into Homes

HOME MARKET - U.S. PC SHIPMENTS

MAKER	1997	MAKER	1994
PACKARD BELL/NEC	23.3%	PACKARD BELL	32.4%
COMPAQ	18.8	APPLE	14.7
GATEWAY	11.1	COMPAQ	11.5
IBM	7.0	IBM	6.1
ACER	5.9	GATEWAY	5.5
OTHERS*	33.9	OTHERS	29.8

*Includes Apple at 5.0%

...And Into Schools

EDUCATION MARKET - U.S. PC SHIPMENTS

MAKER	1997	MAKER	1994
APPLE	27.2%	APPLE	47.0%
COMPAQ	13.2	IBM	8.5
DELL	10.7	DELL	4.3
GATEWAY	7.8	GATEWAY	3.3
IBM	6.9	COMPAQ	3.2
OTHERS	34.2	OTHERS	33.7

DATA: DATAQUEST INC.



The G3 Aims to Pump Up Business Sales

BUSINESS MARKET - U.S. PC SHIPMENTS

MAKER	1997	MAKER	1994
COMPAQ	15.7%	COMPAQ	14.2%
DELL	12.8	IBM	10.1
IBM	9.5	APPLE	6.4
HEWLETT-PACKARD	8.0	DELL	5.9
TOSHIBA	5.6	GATEWAY	5.3
OTHERS*	48.4	OTHERS	58.1

*Includes Apple at 1.4%

DATA: DATAQUEST INC.



The PowerBook G3 Has to Get Apple Back on the Road

MOBILE MARKET - U.S. PC SHIPMENTS

MAKER	1997	MAKER	1994
TOSHIBA	20.4%	TOSHIBA	18.4%
IBM	13.1	COMPAQ	13.5
COMPAQ	13.0	IBM	12.0
ACER	8.4	APPLE	9.1
DELL	6.6	NEC	3.6
OTHERS*	38.5	OTHERS	43.4

*Includes Apple at 2.1%

DATA: DATAQUEST INC.





machine and the company's comeback. For one, the iMac won't ship until August, and it's missing some key features that have become staples for PC buyers. What's more, even if the machine hits a high note with buyers, Apple continues to face a gap as wide as the distance from Silicon Valley to Redmond, Wash., in the software available for the Mac vs. what's on store shelves for rival Windows-based PCs.

Still, Jobs has bought time. The Apple faithful are hopeful again. For the first time in nearly three years, the question isn't if, but how far, the company can come back from the brink of disaster—

**Jobs has bought some
time for Apple, but the
company still faces a
major obstacle:
A dearth of
software
for the
Mac**

or worse, obscurity. Since returning to Apple as interim chief executive last July, Jobs has moved quickly to stop the bleeding by slashing payroll, dumping businesses, ditching products, and refocusing the company around its core Macintosh desktop and PowerBook notebook computers.

BETTER OUTLOOK. The results have been astonishing: Apple's market share, which seemed to be gasping its final breaths before slipping into the ignominious category called "other," is up for the first time in years—to 4% in the first quarter from 3.4% at the close of 1997; according to market researcher International Data Corp. After six quarterly losses, the company has posted two consecutive quarters in the black, earning more than \$100 million. And Apple's stock is at 30, a 52-week high. "Steve clearly has done an incredible job," says former Apple Chief Financial Officer Joseph Graziano. "But the \$64,000 question is: Will Apple ever resume growth?"

As yet, there is no surefire answer. While Apple is expected to sell 6% more computers this year than in 1997, that's still not enough to keep pace with overall PC sales, which are growing at a 13% to 15% clip. Next year could deliver an altogether better scenario, though. With the help of the iMac, which could be a Christmas hit, Apple's shipments could surge 13% in 1999, figures analyst Louis J. Mazzucchelli of Gerard Klauer Mattison & Co. That could set the stage for Apple to nudge its U.S. market share back to 6% by the millennium.

There's just one problem: That's a far cry from the 14% peak the Mac boasted five years ago. And while Apple unveiled a new road map on May 11 for the machine's vital operating-system software, which could make it as robust as Microsoft Corp.'s rival Windows NT, that may not be enough to keep software makers in the Mac camp or bring others back into the fold. Writing Mac programs "takes a lot of time, and the user base just isn't there," says Barrett Alexander, director of business de-

Information Technology

velopment for gamemaker id Software Inc. After selling just 50,000 copies of id's Quake for the Mac—vs. 1 million Windows copies—the company didn't bother with a Mac version of Quake II.

Worse, even if Apple does inch its way back to, say, a 6% share of the U.S. PC market, it may still have a tough time generating the funds to bankroll the kind of innovation that will make it a standout going forward. Already, Jobs has taken a heavy hand to R&D spending, pegged at \$300 million in 1998, half of Apple's 1996 level. Yet developing major overhauls of operating software can cost upwards of \$200 million. Rival Microsoft Corp., for example, is on track to spend nearly \$2.4 billion on R&D this fiscal year.

"LOW-HANGING FRUIT." So, in the face of such odds, how does Jobs stoke a big comeback? The plan is surprisingly simple—almost retro: Jobs is betting on the PC. Forget whizzy products, such as information appliances, multimedia players, or handheld computers. "We're not going off into la-la land," he says (page 62). "The personal computer has been the most successful consumer product of the last 10 years. We'd all like to have a better online *TV Guide* in

our settop box, but that does not a multibillion-dollar industry make."

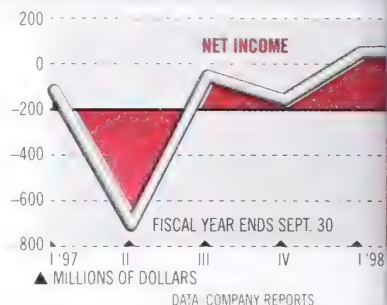
For Apple, it's back to the future. That's why the introduction of the iMac was so heavy on nostalgia. It's the machine for the rest of us—updated for the Internet Age. That's central to Jobs's game plan, which hinges on harvesting pent-up demand from fence-sitting Mac loyalists who have been turned off by lackluster products and concerns about the company's viability. "The people who are already using the Mac are the low-hanging fruit," says Jobs. "But we still have to earn their business."

With the loyalists attended to, Jobs then plans to turn his attention to luring first-time PC buyers. His carrot: keeping Mac prices on a par with computers made by Dell Computer Corp. and the like. By offering a cool look, affordable prices, and the Mac's famed ease of use, Jobs is betting he can "capture more than our share" of newbies. Experts, however, are doubtful. "I just don't see them attracting new users," says Eugene G. Glazer, a technology analyst for Fortis Advisers.

Then comes Phase III of the Jobs attack: an audacious attempt to persuade rival Windows PC users to make

the Mac switch. Jobs, for instance, hoping that once Apple's machines regain momentum in the education market—where it held a 27% share in 1993 down from 47% in 1994—students will talk their parents into buying Macs for

APPLE'S PROFITS ARE BACK...



the home. But that's going to be an uphill battle. Take Ido Rosen, a 13-year-old in Tenafly, N.J., whose parents bought a Dell 266, despite his objections. "I would've wanted us to buy another Mac, but my dad said it would be better because Macs are dying," says Rosen. Concedes Jobs: "That's the hardest of it. It's going to take time."

Kinko's

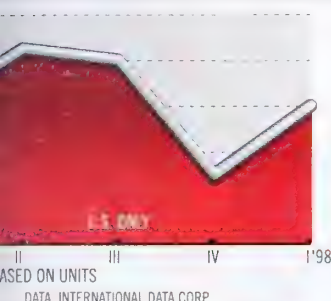
Kinko's: your full-service, total support, 24-hour, 7-day-a-week, where-have-you-been-all-my-life business resource.

even a lifetime spent pursuing the dominance of Windows machines not be long enough. Why? Software—or, in Apple's case, a lack thereof. There are some 12,000 programs available for the Mac, but as Apple's market share has declined, retailers have shrunk the shelf space given to programs. Worse, the number of

dles—even when it comes to the iMac. By the time it ships, the \$1,299 sticker price could look hefty in the face of \$600 PCs (\$850 including monitor) expected out by competitors for the holidays. "The iMac would have been a spectacular product in January," says Dataquest Inc. analyst Scott Miller. "It would be competitive now. But by Au-

gust, it's going to look underpowered for the price."

MARKET SHARE IS EDGING UP...



...AND INVESTORS LIKE WHAT THEY SEE



developers willing to crank out new Mac programs is dwindling. While 70% of software developers wrote for the Mac in early 1996, slightly over 20% do today, estimates Michael Murphy, editor of *Overpriced Stock Letter*. "If [Jobs] asks he's going to take on Dell and Compaq, good luck." To be sure, Apple faces major hur-

gles—even when it comes to the iMac. By the time it ships, the \$1,299 sticker price could look hefty in the face of \$600 PCs (\$850 including monitor) expected out by competitors for the holidays. "The iMac would have been a spectacular product in January," says Dataquest Inc. analyst Scott Miller. "It would be competitive now. But by Au-

gust, it's going to look underpowered for the price."

FLOPPY FLAP. Then there's the lack of an internal floppy drive for backing up files. There has been much online teeth-gnashing about this among Mac fans. One Web surfer admitted he rarely uses floppies, "but when you need it, it's there, right? Omission of a basic hardware component like a floppy drive will kill this machine," he wrote in an E-mail. Apple also could have a problem in the education market. Few schools have sophisticated networks, and most students keep their files on floppies. "I'm nervous they've made a mistake," says Mac user Dan Hamilton, communications coordinator for Cape Cod Commission, a regulatory and planning agency.

Jobs disagrees. "People aren't thinking clearly," he shoots back. "Nobody's going to back up a 4-gigabyte drive onto 1-megabyte floppies. They'll use a Zip drive—but they're too expensive to build into a consumer product. Besides, hardly anybody backs up anyway,

New
Kinko's
Express



Make color copies fast. Put projects together fast. Check out fast. Kinko's Express: the do-it-yourself, pedal-to-the-metal launching pad.

kinko's Express
The new way to office.

so why build cost into every system?"

It's vintage Jobs. While the 43-year-old Apple co-founder is considered one of Silicon Valley's visionaries, he sometimes gets ahead of consumers. Jobs, for example, fought the idea of an expandable Mac after it was launched in 1984. And at his next Inc. startup, he built a sleek black workstation that won design awards but tripped up because it didn't contain a hard drive at first. "Consumers are not going to fall in love with a computer because of what it looks like," says Oppenheimer & Co. analyst James Poyner. "Am I buying a piece of art or a computer?"

Jobs would say both. Indeed, by combining aesthetics with ease of use in both the iMac and the new PowerBook G3, Jobs thinks he has a winning combo. "We have an incredibly great shot at coming back in this market," he says. He figures that Apple can boost revenue more than 20% for every point of market share it picks up.

So far, Apple is heading in the right direction. Analysts expect it to be profitable over the next three quarters and to show year-over-year unit growth in the Christmas quarter. Already, the Power Mac G3, the model for business users, is Apple's hottest new product ever: Some 500,000 G3s shipped in the first six months. Apple could get another boost from the new PowerBook laptops, code-named Wall Street, which debuted on May 6 alongside the iMac. Jobs says \$1.9 million worth of new PowerBooks were sold in the first 24 hours through its new online store.

AD ATTACK. To feed demand, Jobs is turning to his strength—marketing. With a \$100 million campaign that includes heavy TV and print advertising, Apple is planning to attack the consumer market with in-your-face ads. The next one, conceived by Chiat/Day Inc., which engineered Apple's edgy "Think Different" campaign, shows a steamroller crunching rival Pentium notebooks before cutting to a picture of the new PowerBook G3s. Says Jobs: "We can be more effective at getting to consumers. Have you seen great marketing come

out of Compaq and Dell? I haven't."

Maybe not. But what Compaq and Dell can claim are far more software programs that will run on their machines. Jobs has a plan to ease the yawning gap there, too. He says that when he arrived back at Apple, he was told there were 10,000 Mac developers. But when he asked for a list of the top 100, "everyone looked at me like I was from Venus."

Now, Apple is focusing on the top 100 developers to ensure that key titles keep coming out. Apple will direct half its developer support to this core

sody and blend it with the Mac operating system to create the MacOS X due in late 1999. This will make it easier for software makers to create Mac programs. "Apple has realized that developers weren't willing to rewrite the applications," says Michael Sexton, chief programmer of Gloriasoft, a San Francisco-based software developer.

Apple can't afford any more software snafus, such as the recent one with Intuit Inc. The company almost lost the maker of popular financial software Quicken. In April, Intuit decided to let word that there would be no Quick-



"It's in the genes of this company to be different"

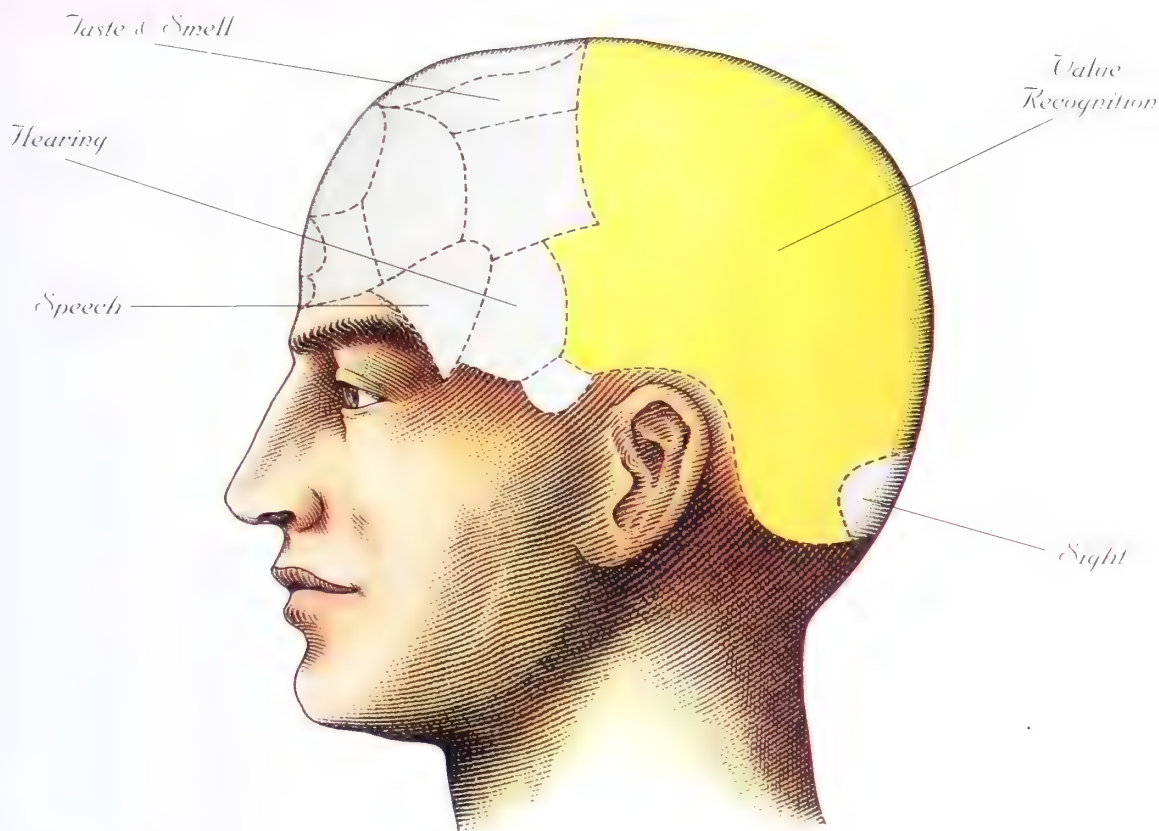
**iMAC DESIGNER
JONATHAN IVE**

for Mac this year. Jobs quickly called William Campbell, Intuit's CEO and member of the Apple board and Jobs's across-the-street neighbor in Palo Alto, Calif. Jobs told him that he would give him a glimpse of Apple's upcoming products. Intuit got charged up after executives got a look at the iMac. Now the company is back on board and planning to deliver a Mac upgrade next year.

Such tactics show that Jobs is clearly willing to break the old Apple mold. "It's in the genes of this company to be different," says Jonathan Ive, Apple's chief of industrial design who cooked up the iMac's look. But Jobs's biggest break with the past might be his modernizing the company's rainbow logo. Apple is keeping the same shape—an apple with a bite taken out. But the colorful stripes are on the way out. "It's a kind of '70s look," says Jobs. Instead, Apple is going to use a shape with a variety of solid colors. "The shape is our 'swoosh,'" he says. Now that's a shape Jobs would like to see in Apple's sales charts.

Even Apple's flip-flopping software strategy may finally have landed on the right side of developers. On May 11, Jobs did an about-face and decided to drop some elements of the Rhapsody operating system, which Apple acquired from Jobs for \$425 million last year. Instead, Apple will take the best of Rhapsody

By Ira Sager in New York and Paul Burrows in San Mateo, Calif., and Andy Reinhardt in Cupertino, Calif.



Those who fly First Class for the price of Coach share a very highly developed characteristic.

It's been said that we use a mere 10% of our brain capacity. If, however, you're flying ConnectFirstSM from Northwest Airlines, you're using considerably more. Because with ConnectFirst, you can fly First Class for the price of Coach. Pretty smart. Just purchase a full-fare Coach ticket on a qualifying connecting flight, and you'll receive an automatic upgrade to First Class. Plus, you'll receive an additional 1,000 WorldPerks[®] Bonus Miles roundtrip. Call Northwest at 1-800-225-2525, book online at www.nwa.com, or call your travel agent and ask for a ConnectFirst fare. You'll be glad you thought of it.



1-800-225-2525 / www.nwa.com

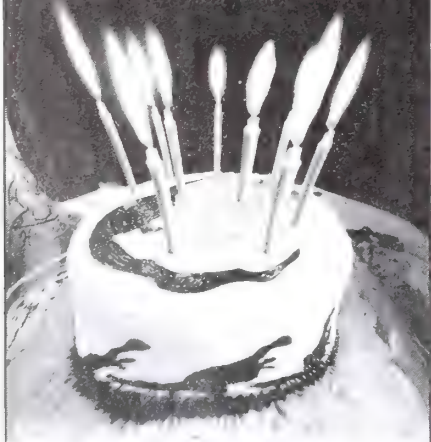
Get the latest advertiser info.

Check out

BizLink
www.businessweek.com/BizLink/

on page 138

To a six-year-old
having an asthma attack,
this is like blowing out
a forest fire.



1-800-LUNG-USA

Because...When you can't breathe,
nothing else matters.

**AMERICAN
LUNG
ASSOCIATION**

www.lungusa.org

Information Technology

STEVE JOBS: 'THERE'S SANITY RETURNING'

Nobody can doubt the charisma of Steven P. Jobs. The interim CEO of Apple Computer Inc., who returned to the company last July after his 1985 ouster, has brought back his legendary vision, impatience, and infectious passion for the Macintosh. Jobs spoke to *BUSINESS WEEK* correspondent Andy Reinhardt in Apple's stark fourth-floor boardroom after the company rolled out its new software strategy on May 11.

Q: Now that you've introduced the new, bold-looking iMac, are you going to do some radically different products?

A: There's a lot of talk about such things—about handhelds, settop boxes. A lot of computer companies have been searching for a consumer product. My view is that the personal computer has been the most successful consumer product of the last 10 years. What the industry stopped doing is targeting that sector of the market [consumer PCs]. You know, everybody else wants to be IBM. Dell is just selling to the corporate market, primarily. Compaq just bought DEC—my God!

But Apple really beats to a different drummer. I used to say that Apple should be the Sony of this business, but in reality, I think Apple should be the Apple of this business. Apple is certainly moving closer to doing that with these new products. And I've got to tell you, the Internet is a place you go when you want to turn your brain on, and television is a place you go when you want to turn your brain off. I'm not at all convinced that the twain will meet.

Q: The \$1,299 price tag of the iMac isn't in the range of consumer products.

A: No PCs are in the price range. But people are seeing the value at these prices, and our goal is to continue to lower prices on products like iMac. An iMac costs about as much as heating a New England home in the winter, a lot less than an automobile. We're not in the sweet spot totally, but we're getting there. For Apple,

this is a pretty big step. Apple hasn't had a compelling product under \$2,000 for the last several years.

Q: Did you do consumer research on the iMac when you were developing it?

A: No. We have a lot of customers, and we have a lot of research into our installed base. We also watch industry trends pretty carefully. But in the end, for something this complicated, it's really hard to design products by focus groups. A lot of times, people don't know what they want until you show it to them. That's why a lot of people at Apple get paid a lot of money, because they're supposed to be on top of these things.



**“It's not about
charisma and
personality. It's
about results
and products”**

— STEVE JOBS

Q: Why did you decide against including an internal floppy drive and opt for a slower modem?

A: You know, you've got to do the right thing. Just take the floppy: People aren't thinking clearly. Nobody's going to back up a 4-gigabyte drive onto 1-megabyte floppies. They'll use a Zip drive—but they're too expensive to build into a consumer product. Besides, hardly anybody backs up anyway, so why build cost into every system?

Q: How will you increase the num

This announcement appears as a matter of record only.

\$348,000,000



CASTLE HARLAN PARTNERS III, L.P.

in partnership with Management and Co-investors has acquired



*The undersigned assisted in the negotiations
and acted as financial advisor to Castle Harlan Partners III, L.P.*

CASTLE HARLAN, INC.

May 25, 1998

New York

This announcement appears as a matter of record only.

\$180,000,000



CASTLE HARLAN PARTNERS II, L.P.

has sold



to

ZODIAC S.A.

*The undersigned assisted in the negotiations
and acted as advisor to Castle Harlan Partners II, L.P.*

CASTLE HARLAN, INC.

May 25, 1998

New York

Nourishing the future

How do we help future generations lead healthier lives?

At Novartis, the world's leading Life Sciences company, we are developing a wide range of foods and nutritional products to better nourish our children and ourselves. Zhang Dong of Shanghai was receiving poor scores in his physical education classes and had difficulty keeping up with his classmates. Thanks to a nutritionally-fortified breakfast drink from Novartis, Zhang now has the energy he needs to succeed in school and the confidence to compete with his classmates.



Novartis.
We're with you...for life.



Healthcare



Agribusiness



Nutrition

new skills in the science of life
www.novartis.com

ber of Mac software programs?

A: Let's focus first on the real problem. Forget the perception. The real problem is that a lot of developers have had a really tough time dealing with Apple over the last few years. I talked to these folks. It wasn't even about the volume of Mac sales declining—it was problems in dealing with Apple. We fixed almost all of that. The developers are coming back, and it feels really good.

Q: Are you going to take the CEO job permanently?

A: There's nothing new to report. I just decided one day that for me, it just wasn't such a big deal. I didn't have to lose sleep over this, worry about this. I'm Apple's interim CEO, and it won't be forever, and I'm doing the best that I can. But I'm the full-time CEO of Pixar Animation Studios, and I love it, and I also have a family. I'm doing the best I can here. If folks think there's a better solution, I'll be glad to step aside. And eventually, we'll find somebody else to take the reins.

Q: There's a lot of symbolism to your return. Is that going to be enough to reinvigorate the company with a sense of magic?

A: You're missing it. This is not a one-man show. What's reinvigorating this company is two things: One, there's a lot of really talented people in this company who listened to the world tell them they were losers for a couple of years, and some of them were on the verge of starting to believe it themselves. But they're not losers. What they didn't have was a good set of coaches, a good plan. A good senior management team. But they have that now. So, the first thing to invigorating people is winning again. They're seeing us win, by the customer reactions to the products, by the sales, the profitability, all of those signs that people want what we've got again. And, that we can run our business well. That our own house is in order, that we've stopped the waste people have seen with their own eyes without knowing what to do about it. There's sanity returning.

The second thing that's reinvigo-

rating them is that Apple is starting to innovate again. There's been a vacuum in this industry for a long time, in many ways, and that vacuum is in a lot of areas where Apple's legacy is. So Apple is back to its roots, starting to innovate again. People are sensing that, seeing it concretely, and really feeling good about it. When they see the iMac, for example, they think we really can produce industry-leading products like this. It's not about charisma and personality. It's about results and products and those very bedrock things that are why people at Apple and outside of Apple are getting more excited about the company and what Apple stands for and what its potential is to contribute to the industry.

Q: What's the coolest stuff you have coming down the product pipe?

A: We have some pretty cool stuff coming, but we don't talk about it.

Q: Will they be computers?

A: Yes. We're not going off into la-la land.



Unlimited

Introducing...

REX

PC COMPANION

Starfish Software

ROLODEX ELECTRONICS

Contacts
Calendar
To-Do List
Memos
Home/World Time

Access

Never be without your PC organizer information.

Now, a credit-card-size way to carry your organizer information. REX gives you access to up to 3,000 entries with the press of just a few keys. Simply enter data on your PC, download through a PC-Card slot with the REX Serial Docking Station — then go! REX comes with its own easy-to-use PC organizer software. This program also imports data from most popular organizers including: Sidekick 98, Lotus Organizer 97, Microsoft Schedule+ 7.0 and Outlook 97 and Symantec ACT! 3.0.* REX gives you unlimited access to the information you need most — Starting at \$149.

*Some import limitations may apply.

For more information, call toll-free 1-888-REX-8888 or visit our website at: www.franklin.com/rex

EDITORS CHOICE
PC FUTURE
Windows Software



UNLIMITED PARTNERSHIP
ROGER KECK FROM PILGRIM'S PRIDE — SCOTTY MARTIN FROM ARAMARK

WE FOUND \$250,000 IN

savings and had an 11% drop in operating costs just by letting ARAMARK do

THE LAUNDRY.

"Our partnership began with ARAMARK providing us with maintenance uniforms, mats, and towels." Says Roger Keck of Pilgrim's Pride. "So when Scotty Martin and his team from ARAMARK came to me about expanding to a smock rental program, I was interested to hear what he had to say. We've got 30,000 smocks that need to be washed every week, and the way our old washing machines always broke down, I never knew if we'd make it. And as you can imagine, the maintenance really got expensive." At ARAMARK we're always looking for new and innovative ways to make our partners' job easier. And at Pilgrim's Pride we knew a smock rental program would not only save time, but also money. We pick up and deliver every day. We even developed a system that lets workers select their size and color smocks a lot faster. Roger adds, "In the first year we saved \$250,000 and had an 11% cut in operating cost. Things are going so well we're bringing ARAMARK in at three of our other locations."

To learn more about Managed Services through Unlimited Partnership call 1-800-ARAMARK or visit us at www.aramark.com

 **ARAMARK**
Managed Services. Managed Better.

INTELLIGENCE BRIEFINGS

a special advertising series sponsored by CONSECO

The following article appears on S&P Personal Wealth, www.personalwealth.com, the interactive investment advisory service for the individual investor:

DIALING FOR DOLLARS: ATTRACTIVE TELECOMMUNICATIONS STOCKS

The Telecommunications Act of 1996 opened domestic markets previously dominated by a single company, AT&T, and accelerated the pace of consolidation in the industry. In addition, changes in overseas telecommunications markets have allowed new global competitors to set up shop.

Internet service arms. Although trading at a lofty price/earnings ratio, the shares (S&P rank: 5 STARS, Buy) are an attractive speculation.

Cellular/Wireless: The telecommunications industry has also been making the slow transition from wireline to wireless communications, which currently represents only about 5% of the overall market. As wireless operators aggressively build their systems toward eventual worldwide service, the prospect of replacing telephone cords with personalized and portable communications instruments becomes more probable. Investors have not ignored the potential of wireless: the S&P MidCap telecommunications cellular/wireless index, which

h i g h l i g h t s f r o m S & P P e r s o n a l W e a l t h

Three segments of the telecommunications industry that have become particularly attractive are long distance, cellular/wireless, and international. These sectors are experiencing revenue and earnings growth well above the levels seen at traditional telecom service providers. **S&P Personal Wealth** takes a look at these sectors, and offers a top stock in each.

Long Distance Carriers: Through March 31, the S&P long distance carrier index was up 18.5% versus a 13% gain for the S&P 500. Long-distance carriers are better positioned than their local counterparts, which continue to have trouble dealing with increasing competition in their markets. We believe that the Baby Bells (Ameritech, Bell Atlantic, BellSouth, SBC Communications and U S West Communications Group) will have a difficult time competing in the long-distance market against well-entrenched foes like AT&T, Sprint and the WorldCom/MCI Communications combination.

★ **WorldCom Inc. (WCOM):** Through a series of stock acquisitions that added to earnings, the fourth largest long-distance carrier, which had concentrated on high margin business clients, has added significant local and

climbed 36% in 1997, was up another 32% through March 31.

★ **AirTouch Communications (ATI):** This independent provider of wireless communications is an industry leader in the U.S. and has strong growth potential in its international operations. The shares (S&P rank: 5 STARS, Buy) are a top choice in the wireless segment.

International: We also expect significant growth in the international phone business because of a landmark telecommunications agreement that was signed in February 1997 by almost 70 nations. The accord will permit companies to acquire interests in foreign telephone operations, many of which have been exclusively state-owned. The biggest beneficiary of international privatization will be Latin America. Over the last decade, Argentina, Bolivia, Chile, Mexico, Peru and Venezuela have moved from government-controlled telecommunications to private operations. More recently, Brazil has leaned toward privatization.

★ **Telefonica de Espana, S.A. (TEF):** The leading telecommunications provider in the Spanish-speaking world also has attractive international growth prospects. The American Depositary Shares (S&P rank: 4 STARS, Accumulate) are a good choice for capital appreciation.



S&P

PERSONAL WEALTH
www.personalwealth.com

Look for Intelligence Briefings in Business Week next month. Additional market insight is available on S&P Personal Wealth at www.personalwealth.com.



Life doesn't follow a script. That's why you need to plan for the unexpected. It's also why you need to plan for your long-term future. With the Consecos companies, you can do both. We offer a wide range of insurance products that help you protect wealth. We also offer annuities and mutual funds that give you the opportunity to create wealth. So, you'll always feel prepared. No matter which way the wind is blowing. Protect wealth. Create wealth. Our goal for life."

1-888-9-CONSECO
www.conseco.com

Insurance products offered by Conseco Equity Sales, Inc., Carmel, IN 46032,
a subsidiary of Conseco, Inc. ©1998, Conseco, Inc.



CONSECO.



FORMIDABLE

Venter plans to finish the genetic code in three years—with Perkin-Elmer picking up the tab

total cost of about \$200 million with Perkin-Elmer picking up the tab. That is a fraction of what the federal government is spending to complete the task—and Venter vows to finish four years sooner.

What's more, Venter and Perkin-Elmer will give away the entire human DNA sequence, just as the government plans to do. We agreed it would be morally wrong to hold the data hostage, says Venter. The gamble by Perkin-Elmer—a pioneer in gene sequencing—is that it can make money by selling information about what the sequence means, as well as finding new genes for developing medical therapies.

"BLACK EYE." The announcement sent shock waves through the hot field of gene-mining. This discipline, called genomics, is already populated by dozens of companies (table, page 72) and academic labs seeking to understand and profit from DNA's secrets. Companies such as Human Genome Sciences Inc. (HGS) and Incyte Pharmaceuticals Inc. have already made millions

selling access to their private stores of gene sequences. But the new company is a formidable competitor—"a 1,000-pound gorilla," says analyst Elizabeth Silverman of BancAmerica Robert Stevens. Adds Randal W. Scott, president of Incyte in Palo Alto, Calif.: "It puts a new competitor into play." At the idea that a private company could soundly beat the existing taxpayer-funded effort to the prize "is a tremendous black eye for the government," says William A. Haseltine, CEO of HGS. "They will lose the race to the genome."

But the venture also raises a host of questions. Does the massive private effort mean that the government's Human Genome Project should redirect its efforts? And will Perkin-Elmer actually be able to make money from its radically different business plan?

On the science, few are betting against Venter. "There's no question that the person who can put together an operation like this and make more headway than anyone else is Craig Venter," says Stanford University biochemist and Nobel laureate Paul Berg. Back in

BIOTECH

THE DUO JOLTING THE GENE BUSINESS

Craig Venter and Perkin-Elmer target the human genome

In late 1997, an ambitious idea occurred to technology guru Michael W. Hunkapiller of Perkin-Elmer Corp. Hunkapiller's team was developing a robotic machine that promised to decipher human genes far faster and more cheaply than any previous system. Why not use the new device, Hunkapiller wondered, to tackle one of the biggest prizes in all of biology—successfully deciphering the entire human genetic code? He brought his idea to gene sleuth extraordinaire J. Craig Venter, president of the nonprofit Institute

for Genomic Research in Rockville, Md.

The result, announced on May 9, is a still unnamed company that will decipher what one "might describe as the full Monty—the entire genome," says Venter. With some 230 of the new \$300,000 Perkin-Elmer machines running around the clock, Venter and colleague Mark Adams figure they can break the 3 billion individual units of human DNA—the genome—into pieces and decode a staggering 100 million individual units a day. They plan to finish the genetic code in three years, at a

If you had Oracle Financial

and Manufacturing Applications,

you'd be smiling, too.



TM, ® Kellogg Company. ©1998 Kellogg Company.

Oracle and Kellogg's[®]
satisfying customers worldwide.

A corporation that wants to grow needs a healthy diet. And a key ingredient for Kellogg Company is a flexible Oracle solution, one that realigns and consolidates its global information system. Using a robust, integrated set of Oracle Financial and Manufacturing Applications, Kellogg is streamlining its operations worldwide, and thereby approaching \$7 billion in sales. In addition to keeping a worldwide staff on top of all the latest information, Oracle decision support and data analysis tools give management a greater ability to make strategic decisions. And with the powerful Oracle database as its information management backbone, Kellogg can be assured that its systems will always be reliable, available and scalable. Kellogg is using Oracle's global solutions to seamlessly and synergistically work with suppliers, partners and customers in over 160 countries. Now the supply chain, manufacturing and financial processes are organized under strict control, positioning Kellogg at the forefront of the Consumer Packaged Goods Industry. With its best-of-breed partners, Oracle is providing superior consumer packaged goods solutions, helping companies grow locally and globally. Find out more about how Oracle can help your business grow, by visiting www.oracle.com/info/2 or calling 1-800-633-0549, ext. 12896 for a free CD.

ORACLE[®]
Enabling the Information Age[™]

©1998 Oracle Corporation. All rights reserved.
Oracle and the Oracle logo are registered trademarks of Oracle Corporation.

mid-1990s, Venter pioneered a "shotgun" approach to deciphering entire genomes. The idea was to chop the DNA of an organism into pieces, decipher each of them, and then use computers to compare and assemble them in the right order. Using the technique, Venter astounded the scientific world by decoding the first complete genetic sequence of a living organism—a bacterium called *Haemophilus influenzae*.

Perkin-Elmer's new machines will speed up the process. Its Applied Biosystems Division sold \$650 million worth of DNA sequencers and related instruments and services in fiscal 1997. The new tool, available next year, "is an evolution of our current system," says Hunkapiller. Its improved sensitivity and automation will dramatically boost productivity.

DATA FLOOD. Venter is hinting that the government's genome project should shift its focus to, perhaps, sequencing the DNA of animals instead of people. That's not likely. Dr. Francis Collins, head of the National Institutes of Health's genome center, wants more proof that the new company will live up to its promises before he alters his course. And even if Venter succeeds, making sense of the flood of information won't be easy. Only about 3% of human genetic material is actual genes. Some of the remaining 97% of the DNA turns genes on and off, and scientists think that much of the rest is meaningless junk. Part of Venter's job will be to figure out what's what, and that could be tough. "The genes jump right out at you in microbial sequences," says Richard K. Wilson of Washington University's gene-sequencing center. "In humans, it's much more difficult."

Many are confident of Venter's scientific claims, but the business end of this venture is another story. Perkin-Elmer faces an uphill battle convincing the biotech world that this is a money-making idea. "What they're describing is not a commercial venture," says Incyte's Scott. "It's really Craig Venter going after the Nobel prize for sequencing the genome." HGS's Haseltine is also skepti-

cal. "The human genome project has never been a commercial venture," he says. "This is more in the tradition of the Mellons and Carnegies"—funding a project that promises mainly to push back the bounds of knowledge.

Perkin-Elmer execs insist that their proposal has been misunderstood. "People still don't see how, if we give away the data, we will make money," sighs CEO Tony L. White, as he patiently explains the plan. Stanford's Berg says that "the big game is how to make use of the information," and that's the information White plans to sell. Rival Incyte is already an old hand at this. In fact, one of its products is a repackaging of publicly

genetic variations. And companies such as Affymetrix Inc. will benefit, analysts predict. Affymetrix makes gene chips which can almost instantly spot the presence of thousands of different genes or gene variations.

DRUG DEVELOPMENT. Perkin-Elmer should also benefit. The \$1.4 billion company has moved aggressively to acquire companies and new technology, transforming Perkin-Elmer from an instrument maker to one that provides services and information as well. Since White took over in 1995, the company has acquired Tropix, a leader in screening drug candidates, and GenScope, a developer of gene expression technology

and forged partnerships with other players. For instance, it teamed up last June with gene-chip developer Hyseq Inc., whose products could be used to search for gene variations.

Venter's move at Perkin-Elmer's venture may also prove from new genes that Venter finds. The main current approach for finding genes involves fishing out those that are actually turned on in cells. Venter argues that this tack, while ironically, he pioneered, misses some of the genome's real gold. That's because some genes may turn on too rarely to be

discovered. He estimates that by sequencing the entire genome, he'll find 10,000 to 20,000 new genes. Many will be genes for vital signaling pathways in the body and brain—ideal candidates for drugs. As a result, "the genes will have tremendous value of their own," he says. He expects the new company to pluck out a few hundred of the most promising to patent and use for drug development.

The risks, of course, are high. Haseltine and others think the new company may very well succeed at deciphering the entire human genome. Making money, however, will be harder. Venter knows that, but thinks he'll prove the skeptics wrong within a year. By then, he and his supporters believe, the tools will prove their worth, and will vindicate Venter's hunches once again.

By John Carey in Washington

WHO'S WHO IN GENES

Craig Venter's new venture is entering a crowded field. Here are some key players that want to unlock the secrets of genes:

GENSET Under top French molecular biologist Daniel Cohen, it offers genetic information to help drugmakers tailor drugs to individuals.

HUMAN GENOME SCIENCES A pioneer in this field, HGS has built a vast database of genes, some of which it is using to create novel drugs.

HYSEQ has developed technology for rapid sequencing. Collaborates with Perkin-Elmer, and is using its own tools in drug discovery.

INCYTE Owns a huge database of genes and gene fragments, and sells both its sequences and related biological information. Collaborates with microchip firms to do rapid gene analysis.

MERCK Funded a large gene-hunting project at Washington University, St. Louis. All of its findings have been deposited in public databases.

MYRIAD Discovered the breast cancer gene by studying the genes of affected families. Now searching for more genes and developing diagnostic tests.

AXYS Finding genes for diseases such as asthma, then searching for drugs to tackle the diseases.

available data in more usable form, says analyst Mike G. King of Vector Securities International. Haseltine wonders how Perkin-Elmer can do this "better than the rest of the world combined."

Venter and Perkin-Elmer execs retort that the new company will have enough experience and smarts to be a leader in this toughly competitive field. They envision signing up hundreds of thousands of subscribers—both companies and academics—for a database that offers such vital information as which sequences are genes, what the genes do, and how genes can vary from person to person. Such variations, called "polymorphisms," determine whether individuals are susceptible to certain diseases or how well drugs will work. Doctors and pharmaceutical companies can use the information to better diagnose and treat people based on their

NBC and The Wall Street Journal team up to make
the best business news on TV even better.



the best business decisions demand the best business information.
Watch CNBC weekdays 5:30AM to 7:30 PM/ET.

the morning before the market opens • All day as the market unfolds • After the closing bell to get a jump
tomorrow. For the latest global business news, watch CNBC, or visit our website at www.cnbc.wsj.com



THE
WALL
STREET
JOURNAL

Real Time. Real Depth.

EDITED BY CATHERINE ARNST

GREEN WONDERS OF THE FUTURE

MOVIES AND BOOKS SET IN THE FUTURE tend to depict a world devastated by the pollution generated during the 20th century. But those fictional prognosticators have got it all wrong, say Energy Dept. researchers. They predict that within the next decade we will see environmental gains. Engineered crops will require fewer pesticides and less fertilizer. "Smart" filters will ensure cleaner drinking water. Cars will get 80 miles to the gallon.

Those are among the items identified in the first environmental-technology forecast from Energy's Pacific Northwest National Laboratory in Richland, Wash. The forecast, which Energy hopes to issue annually, was based on a review of technologies in the development or demonstration phase, in both private and public sectors, that should pay off in the next decade. Those deemed most significant were seen as averting problems before they happen, says associate lab director Gerry Stokes.

The No. 1 environmental technology, the team decided, will be the genetic engineering of plants. Genetically modified soybeans, tomatoes, and other crops will taste

better, require less fertilizer, and resist pests better. Here are the best of the rest, ranked by the researchers in order of importance:

- Smart water-treatment filters with sensors that will enable them to unclog themselves automatically.
- Improved storage for electricity from solar and wind power.
- Microtechnology that will allow everything from chemicals to energy to be used and produced more efficiently. An example: Micro heat pumps will need less energy to warm up rooms.
- Advanced display systems that will cut down on the use of paper.
- Molecular design, based on an understanding of how materials behave at the molecular level, that will create efficient solar cells and allow waste-free chemical processing.
- Bioprocessing that will enable microorganisms to serve as tiny factories for chemicals, fuels, drugs, and enzymes, thereby cutting costs and pollution.
- Real-time sensors that will identify microbes in air and food immediately.
- New processes for creating recyclable and biodegradable products.
- Lightweight, more fuel-efficient cars.



VITAL TECH: Engineered crops will help the environment

INNOVATIONS

■ Good news for golfers searching for the perfect green. A plant geneticist with the Agriculture Dept. has developed an environmentally friendly bermuda turfgrass for golf courses. The secret to the grass, called TifEagle, is its short, narrow leaves and a dense, fast-spreading root system. The roots allow it to crowd out weeds, thus reducing the need for herbicides, and to withstand the constant mowing that stresses most other putting-green grasses. USDA researcher Wayne Hanna developed the grass by shooting gamma rays at portions of bermuda grass. He then selected the

mutated offspring with the shortest shoots and started breeding those. TifEagle has been patented and will make its debut this summer on golf courses in Georgia and Florida.

■ More good news—this time for itchy cats everywhere: The Food & Drug Administration just approved the first injectable flea-control product. According to maker Novartis, one shot of Program stops fleas for six months—in cats only (dogs can develop a severe local reaction from the shots). The active ingredient in Program is lufenuron. When a female flea bites a cat treated with Program, it lays eggs that don't hatch. The flea population on the



FLEA-FREE? The FDA has just approved the first injectable flea treatment

host feline's fur dwindles and then disappears. Program, which must be administered by a veterinarian, costs \$30 to \$40 per treatment.

GETTING HEALING GENES TO THE RIGHT ORGAN

A CRITICAL GOAL OF GENE therapy is to devise a way to inject a corrective gene into the bloodstream. The gene would then home in on the right organ and go to work, producing a protein to treat or cure a disease. It's a great theory, but getting to work has been difficult. Now, scientists are nearing their genetic goal in an inherited disease called ornithine transcarbamylase (OTC) deficiency.

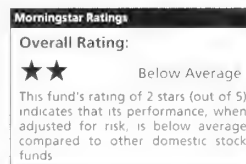
About 1 in 30,000 children are born with the condition, an enzyme deficiency that leaves them unable to convert toxic ammonia into urea, which can lead to coma and death. A team at Philadelphia's Children's Seashore House and the University of Pennsylvania, led by I. Mark L. Batshaw, has been working on a method to deliver the gene for the missing enzyme. By periodically injecting the tail veins of mice with a modified virus that carries the gene to the liver, the researchers say they have been able to cure the animals of the disease. More exciting, they say, the gene therapy continued to work throughout the 10-month lifespan of the mouse, as opposed to just a few weeks. "We've been able to keep the animals metabolically stable for their lifetimes," says Batshaw.

The team has also begun the first human trials of gene therapy treatment with healthy volunteers, looking for evidence that the added gene is speeding conversion of ammonia to urea. The trials are still in an early stage, but thus far, the treatments show "encouraging results" and no toxic effects, says Batshaw. *John C.*

HOW DO YOU *decide* WHETHER TO BUY, SELL OR HOLD A *mutual fund* IN YOUR PORTFOLIO?

WITH OUR NEW MUTUAL FUND REPORT CARDS™, YOU CAN FOLLOW THESE
SIMPLE STEPS TO BEGIN TO EVALUATE YOUR MUTUAL FUNDS.

1. **CHECK OUT THE MORNINGSTAR RATING**
MORNINGSTAR RATES FUNDS ON A SCALE OF ONE TO FIVE STARS. HOW DO YOUR FUNDS STACK UP?



The number of stars a fund receives is one way to evaluate its risk-adjusted performance.

2. **EXAMINE THE PERFORMANCE**
HOW DO YOUR FUNDS COMPARE WITH BENCHMARKS LIKE THE S&P 500 AND THE RUSSELL 2000 AND THE CATEGORY AVERAGE?



You'll find out how the historical performance of your fund compares against relevant benchmarks.

3. **UNDERSTAND YOUR ALTERNATIVES**
IF ONE OR MORE OF YOUR FUNDS ARE LAGGING THE AVERAGE RETURNS OF THE FUNDS IN THEIR CATEGORY, IT MAY BE TIME TO REBALANCE YOUR PORTFOLIO.

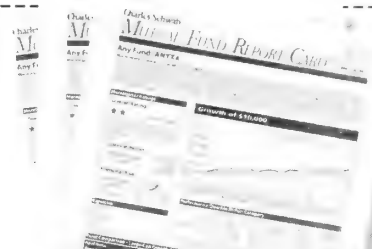
Fund Name (Inception)	Morningstar Ratings
Fund A	★★
Fund B	★★★★
Fund C	★★★★

If appropriate, we'll provide the names of alternative funds for your consideration.

Schwab's FREE Mutual Fund Report Cards MAKE EVALUATING YOUR PORTFOLIO EASY.

Mutual Fund Report Cards provide an easy-to-understand analysis of your mutual funds in a concise, single-page format. They're available on over 7,300 funds from families like Fidelity, Merrill Lynch, Vanguard and more. Why not call for three free Report Cards today, or stop by a local Schwab branch and visit with a representative.

1-800-284-9827



Prospectuses containing more complete information including management fees, charges and expenses are available from Schwab. Please read them carefully before investing. Past performance is no indication of future results. ©1998 Charles Schwab & Co., Inc. All rights reserved. Member SIPC/NYSE. 0598-1796

You see coffee

We see data



©1998 Sprint Communications Company L.P.

Two-thirds of the *Fortune 500* rely on Sprint's vision of data

Every day, industry relies on data to sell products, satisfy customers and manage people and processes. That's why Sprint, as a leader in advanced data communications, offers a full portfolio of solutions for your applications — from simple e-mail to complex integration of voice, video and data. And that lets us give thousands of companies a competitive edge. We can do the same for you. **Because business runs on data. And data runs on Sprint.** www.sprint.com 1-888-730-DATA



We help your business do more business

Special Report

ENTERPRISE

Timely Insights for Small Business

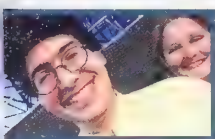
nBox page 2

This 'n' That Why women start their own businesses, how much entrepreneurs made last year, where to go for a small-business loan, and more



SPECIAL REPORT

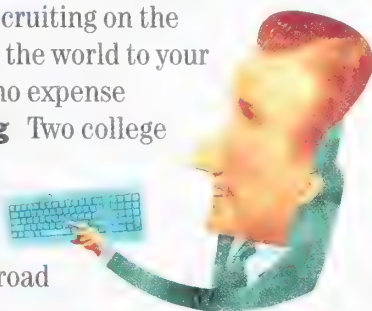
The Labor Crunch page 4



Help Wanted Small businesses feel the worker shortage worse than anyone. How to beat the odds

Wide Net Recruiting on the internet can bring the world to your door—at little or no expense

Drive-By Hiring Two college kids stuffed an RV with laptops and took their online job service on the road



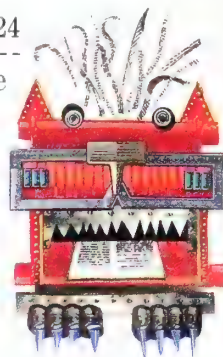
Finance page 20



ESOP Fable S-corporation owner David Copham spent years lobbying Washington to let companies like his offer ESOPs. His persistence paid off—and here's what it means for you

Buyers Guide page 24

No Ripoff Shredders aren't the superfluous office gizmos they may seem. And effective ones can be had for less than 50 bucks



Downtime page 30

Work Hard, Play Hard

Shooting hoops, belting homers,



bowling strikes—besides keeping you in shape, team sports are supplanting the cocktail-party circuit as the networking venues of choice

For more on small business, visit BW Plus! at www.businessweek.com or AOL at keyword: BWEnterprise

You see coffee

We see data



©1998 Sprint Communications Company L.P.

Two-thirds of the *Fortune 500*® rely on Sprint's vision of data

Every day, industry relies on data to sell products, satisfy customers and manage people and processes. That's why Sprint, as a leader in advanced data communications, offers a full portfolio of solutions for your applications — from simple e-mail to complex integration of voice, video and data. And that lets us give thousands of companies a competitive edge. We can do the same for you. **Because business runs on data. And data runs on Sprint.** www.sprint.com 1-888-730-DATA



We help your business do more business™

Special Report

ENTERPRISE

Timely Insights for Small Business

nBox page 2

This 'n' That Why women start their own businesses, how much entrepreneurs made last year, where to go for a small-business loan, and more



SPECIAL REPORT

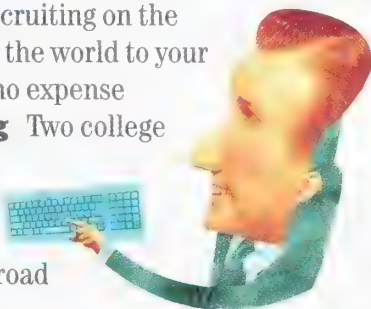
The Labor Crunch page 4



Help Wanted Small businesses feel the worker shortage worse than anyone. How to beat the odds

A Wide Net Recruiting on the Internet can bring the world to your door—at little or no expense

Drive-By Hiring Two college kids stuffed an RV with laptops and took their online job service on the road



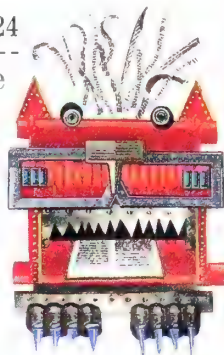
Finance page 20



ESOP Fable S-corporation owner David Copham spent years lobbying Washington to let companies like his offer ESOPs. His persistence paid off—and here's what it means for you

Buyers Guide page 24

No Ripoff Shredders aren't the superfluous office gizmos they may seem. And effective ones can be had for less than 50 bucks



Downtime page 30

Work Hard, Play Hard

Shooting hoops, belting homers,



bowling strikes—besides keeping you in shape, team sports are supplanting the cocktail-party circuit as the networking venues of choice

INBOX

EDITED
BY
EDITH
UPDIKE



WHY WOMEN FLY THE CORP

Women and minorities are the fastest-growing group of business owners, and Corporate America deserves some of the credit. A recent poll from Catalyst and other women's nonprofits found dissatisfaction with corporate jobs inspired nearly half of women entrepreneurs to start their businesses. Although the other half were inspired by an idiosyncratic alienation is a growing cause. Women who started businesses recently cited the glass ceiling and lack of challenge twice as often as women whose businesses are more than 20 years old. Among all women, top reasons for leaving were, in order:

inflexibility; glass-ceiling issues, such as not being valued; unpleasant environment; and lack of challenge. Black women felt far more affected by the glass ceiling and racial discrimination than other groups. Hispanic women had the fewest complaints. Nearly 60% of all pollees said nothing would attract them back.

PLANNING AHEAD

Ernst & Young surveyed fast-growth companies on their long-term ownership plans. No one strategy dominated. Interestingly, companies that aimed to go public were generally less profitable than others.

"Which of the following best describes the long-term ownership plans for the business?"

GO PUBLIC	19%
REMAIN FAMILY-OWNED AND -MANAGED	18
NO DEFINITE PLANS	14
BECOME MANAGEMENT- OR EMPLOYEE-OWNED	14
SELL OR BE ACQUIRED	13
REMAIN FAMILY-OWNED BUT PROFESSIONALLY MANAGED	6
OTHER (ALREADY PUBLIC, CONFIDENTIAL, ETC.)	16

DATA: THE FRANKLIN K. LOEBMAN FOUNDATION
ERNST & YOUNG

SO THEY SAY

"We're hiring people too fast that we would have looked twice before."

—Darrell Tan
President
a Phoenix-based
medical supply
on the labor square
(page 10)

WWW.SMALL/BIZ/STUFF

FEATURES

BENEFITS

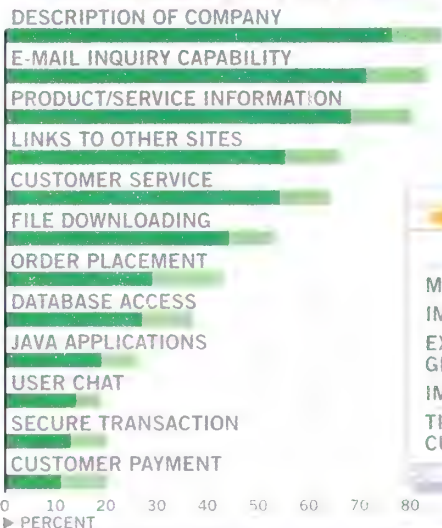
WHO THEY ARE

What can you catch v... Web site? Customers... recent surveys on fea... and benefits of small... ness sites show they... sales and corporate in... So far, only 19% of sm... businesses have sites... more plan one within... Super-small fry seem... exploit the medium mo... ously: A third of busi... with fewer than 10 e... ees let customers ord... the Web, vs. one-fifth... er companies. Twice... of the smaller group... payment on the Web...

DATA: ACCESS MEDIA INTERNATIONAL, CYBER

FEATURES

■ HAVE ■ PLANNING TO ADD WITHIN 12 MONTHS



BENEFITS

MORE INQUIRIES
IMPROVED CORPORATE IMAGE
EXPANDED SALES TO NEW GEOGRAPHIC AREAS
IMPROVED SALES
TIMELY FEEDBACK FROM CUSTOMERS/SUPPLIERS

AN AMEX POLL FINDS 74% OF SMALL-BUSINESS

OWNERS PLAN SUMMER VACATIONS THIS YEAR, 20% MORE THAN LAST YEAR

YOUR FRIENDLY LOCAL BANKERS



TEXAS' CONROE BANK LASSED MANY SMALL-BIZ CUSTOMERS

You've probably never heard of the best banks for small biz: Most are local and have less than \$500 million in assets. In the Small Business Administration's latest annual lending survey, Bank of the Sierra in Porterville, Calif., for example, rose from No. 22 in its state last year to No. 1. Ratings are based on the proportion of a bank's lending to small business—in both value and number of loans—as well as absolute levels of lending activity, which favor big banks. Overall, the number of loans under \$1 million jumped about 25% last year—compared with about 8% in each of the previous two studies—although total dollar value rose only 5%. For the full report and listings by state, visit the SBA Web site at www.sba.gov/advo/lendinginus2.html.

The banks rated friendliest to small business in the half-dozen most populous states

STATE/ HEADQUARTERS	BANK	SMALL-BIZ LOANS MILLIONS OF DOLLARS	TOTAL ASSETS MILLIONS OF DOLLARS
CALIFORNIA Porterville	Bank of the Sierra	\$72	\$334
TEXAS* Conroe	First Bank of Conroe NA	34	95
NEW YORK Warsaw	Wyoming County Bank	53	328
FLORIDA Homestead	Community Bank of Homestead	80	239
PENNSYLVANIA Carbondale	Pioneer American Bank NA	75	356
ILLINOIS Quincy	Mercantile Trust & Savings Bank	88	290

*First Bank tied with six others

DATA: U.S. SMALL BUSINESS ADMINISTRATION

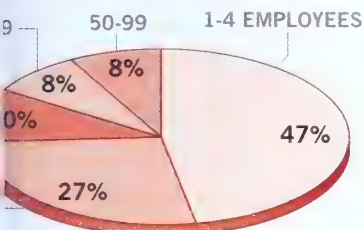
BOOK REVIEW

Kelly, founder of PSS/World Medical, outflanked established medical suppliers to build a billion-dollar business in just 15 years. How? By creating "a company of CEOs"—employees so empowered they can even fire their managers. His new book, *Faster Company*, shows how great (but not lax) employee treatment can make a great company (\$24.95 from Wiley, 800 225-5945). For those whose workers in charge, *Managing Employee Performance Problems* basic guidelines for dealing with troubles ranging from absenteeism to violence, with contact information and resources for help with specific problems (\$14.95 from Crisp, 800 442-7477).



DO THEY ARE

Small businesses with Web sites are likely to be the littlest



HOW MANY BUCKS STOP WITH YOU?

How does your pay stack up against that of other small-company CEOs? Executive recruitment firm Christian & Timbers says average compensation for CEOs at startups backed by venture capital was \$206,000 in 1997—up 11% from 1996. Bonuses for this upscale cadre rose 26%, to \$43,000. The more typical small-biz owner takes home closer to \$70,000, says Dartnell Corp. compensation analyst Chris Heide. But averages are misleading: Most owner-CEOs pay themselves very little at first, taking raises only when the company succeeds. Family-biz expert Joseph Astrachan says family-firm CEOs tend to fall into two camps, making 30% more or 30% less than the average for comparable nonfamily firms. Salary isn't everything; owner-CEOs have bigger equity stakes than hired heads.

NEWSLETTERS

Even geeks have a hard time keeping up with technology, so computer novices can be easily baffled. *Tech Talk* has easy-to-grasp software, hardware, and Net tips for three levels of user. Ten issues, \$67 a year (with a money-back guarantee). From Shared Results Inc., 888 689-8077.



HELP WANTED

How little companies manage to reel in the big talent

From a Milwaukee bakery to a medical-supply company in Phoenix to a software maker in Massachusetts, the lament is the same: Where are the workers to feed the economy's continuing growth? Prosperity, it turns out, has a downside. A survey released last month by Coopers & Lybrand found a staggering 80% of businesses with less than \$50 million in sales reporting a "very serious" or "somewhat serious" shortage of workers. And 69% considered the dearth of skilled employees a potential barrier to growth—up from 59% a year ago. "We're hiring people today that we wouldn't have looked at twice before," says Darrell Tannett, president of Med-Assist, a Phoenix-based medical supplier.

Unless the forecasters are dreadfully wrong, there's no relief on the way. "Given the economy's strength, I don't see any letup in job growth," says James W. Coons, chief economist of Huntington National Bank in Columbus, Ohio. As the economy continues to add more new jobs than workers, April's jobless rate fell to 4.3%—a hefty 0.4% drop from March. By yearend, Coons projects unemployment could dip a bit lower still, to about 4.2%.

Where has the crunch hit hardest? In the West and Midwest. Employment costs in those regions are rising fastest—up 3.8% in the year ended in March, compared with 3.3% nationwide. Colorado, Iowa, Minnesota, and Nebraska have jobless rates hovering around 3%. Among the 51 metropolitan areas of 1 million or more residents, unemployment has dipped lowest in Minneapolis-St. Paul (2.2%), Phoenix (2.5%), and Denver (2.7%). Of the country's 325 metropolitan areas, 98 had unemployment rates below 3.5% in February.

USE YOUR IMAGINATION. Small businesses, always hard-pressed to compete with major corporations on compensation, find themselves at a greater disadvantage in this environment. Companies with fewer than 100 employees in 1997 laid out, on average, \$15.37 per hour per worker, while those with 500 or more spent \$24.75 per hour, according to Labor Dept. data. The answer for many smaller companies has been to come up with imaginative strategies to find and retain workers. Sometimes, these efforts reap unexpected rewards. A Silicon Valley public-relations firm, for example, has been hiring career changers to fill its labor gap—only to discover the mix of their diverse experiences yields a new, companywide creativity (page 8).

In computers, software, and other cutting-edge industries, small employers are lucky to find anyone at all. About 190,000 high-tech jobs are vacant at small and midsize companies, according to Meta Group, a market research firm in Westport,



SPECIAL REPORT
LABOR CRUNCH

DESPERATELY



Conn. Scott Sassone, director of business development at Unica Technologies Inc., a software firm in Lincoln, Mass., recalls how the firm used to have its pick of workers. Now, the people Unica wants most are hired by big companies and are "reluctant to take a risk on a startup," he says. Salaries for information technology personnel, meanwhile, are rising about 20% annually, according to Meta.

To save money and find recruits, Unica is reaching down further into the labor pool. The six-year-old firm now hires programmers just out of college—a strategy that keeps

ATTRACTING TOP TALENT

TRIPLE POINT TECHNOLOGY WESTPORT, CONNECTICUT

In early 1996, Triple Point Technology Inc., a startup specializing in commodity trading software, had more than \$5 million in new orders and needed to recruit 15 new programmers. To co-founders Peter F. Armstrong and Allie P. Rodgers Jr., that sounded like mission impossible.

The former Wall Street tech specialists had already tried want ads, headhunters, and the Internet. But Connecticut is no hotbed of tech talent, and when applicants ventured to Rowayton—a discouraging two-hour commute from New York—they looked askance at the dinky offices and secondhand decor. To get by, the partners used freelancers and reluctantly outsourced pieces of projects.

Then the firm launched a full-bore attack on its hiring problem. First, the partners, who wanted to stay in Con-

necticut, set up a second office in Houston. Tech workers are more plentiful there, and the company's pay went further in the lower-wage city. On the home front, they sprang for a swankier office on the Saugatuck River in nearby Westport. Refurbishing alone cost \$300,000, while rent quintupled to \$15,000 a month. They also threw money at their 20 staffers, giving each a \$10,000 bonus when the firm met a key deadline.

Finally, realizing it had become a beggar in the job market, Triple Point changed its attitude. Consultant Mike Iserson, president of National Corporate College Consultants Inc. in Westport, taught the firm to sell its sizzle—hot technology, stock options, and a casual culture. Such attractions—and the view—lured programmer Ray White from New York. "They really sold me," he says. They sold others, too: Triple Point now has about 50 employees—and had revenues last year of \$10 million. Mission accomplished.

*By Edith Updike in
Westport, Conn.*

CHANGE OF SCENERY

Triple Point moved to a tonier office with a river view and played up its casual culture

Management

salaries down but creates a big expense up front. New grads cost about \$10,000 each to train and need more supervision.

Technicians and professionals head the list of hard-to-find workers by a good stretch, with 54% of fast-growth companies reporting shortages in the Coopers & Lybrand survey. But 33% of these firms say they're having trouble finding sales and marketing executives, and 27% are scrounging for semi-skilled production workers.

In search of lower-skilled workers, employers are looking in even less traditional places—hiring welfare recipients from

government-sponsored workfare programs, recruiting and training recent high school grads, and tapping older workers.

Even non-English-speaking refugees have become prize hires. Four years ago in Fort Wayne, Ind., Simon D. Novosel, whose family comes from Croatia, wanted to help out Bosnian Moslems brought over by the city's Catholic Charities.

As a partner at Midwest Custom Services Inc., a chemical powder processing plant, Novosel hired some. The refugees have turned out to be loyal and hardworking. Equally important, they have supplied a steady flow of relatives and friends, he says. With Fort Wayne's unemployment rate at 2.5%, they are his salvation. "Right now, we're almost exclusively using these refugees," says Novosel, who speaks fluent Serbo-Croatian. He has since added refugees from Iraq and Burma.

TRAWLING THE WEB. Retraining is also hot. Even when making big changes in technology, some companies find it simpler to stay with those they know. A Massachusetts toy distributor converting its business to the Web has decided to retool its entire existing workforce from manual systems to fully automated ones (box). So far, all but one have made the transition.

While small businesses still lag big ones in recruiting online, the labor crunch is pushing them onto the Web. It's a logical place to look for Web-savvy workers, obviously, but the Net (in all its forms) is also becoming a good way to advertise positions and pick up résumés for all kinds of workers (page 12). In some regions, companies and communities are collaborating on the Web to induce workers to relocate. The daVinci Project of Central New York (www.davincitimes.com), for example, provides a common Web site where a consortium of companies, many of them small employers, try to attract sought-after engineers to the Syracuse area.

Money still talks, of course, but companies are finding that the best way to use their scarce funds isn't always to offer recruits higher wages. Some spend on improved benefits or "targeted increases" aimed at raising the pay of—and retaining—key employees. Bonuses are a great crowd-pleaser, too. In Microsoft Corp.'s backyard, Bellevue (Wash.) software maker Interactive Objects Inc. attracts software developers with royalties on the tools they create. AccuData America, a database-marketing company in Fort Myers, Fla., pays a finder's fee of up to \$2,000 to employees who bring in new hires. "The quality of the applicants is better," says Human Resources Director Jill Corcoran. "Our employees do the weeding out for us."

Sometimes, flexibility and quick decision-making can give a small company an edge over larger, more layered corporations in offering creative lifestyle perks that win over prospective employees. Toronto-based ICE, a communications and marketing company with offices in New York and Ottawa, lets employees get 30-minute, on-site back rubs every two weeks. Reality Bytes Inc., a computer game developer in Cambridge, Mass., maintains a well-stocked refrigerator and lets employees roll in as late as 10:59 a.m.

But not every labor problem has an easy solution. So

RETRAINING THE WORKFORCE

HOLT EDUCATIONAL OUTLET WALTHAM, MASSACHUSETTS

Holt Educational Outlet, a toy and software distributor, was about to change forever. And Chief Executive Officer Paul Holt knew the shift would not be child's play.

whose parents started the business 19 years ago.

So Holt started a four-month retraining program that cost an estimated \$50,000 to \$100,000. With one exception, every worker

was successfully retrained by a consultant who taught technical skills and built teamwork. Everyone, from clerks to accountants, moved from paper-based to electronic systems.

Nobody has left the company, and wages are stable about \$25,000 to \$35,000. Stacey Neustadt, 31, once a part-time clerk at the retail store, is now full-time Web master, while graphic artist Michael Boldeza, 28, took up Web design. "It's good to be cutting-edge



PLAYING FOR KEEPS

When Holt moved his company into Web sales, he held onto all of his old employees by teaching them new skills

Last year, as the family-owned company prepared to move into the digital age, there was the sticky problem of Holt's 40 employees. Could they handle the transition from mom-and-pop cataloger to Web retailer? If not, how would Holt find affordable replacements in Boston's tight labor market?

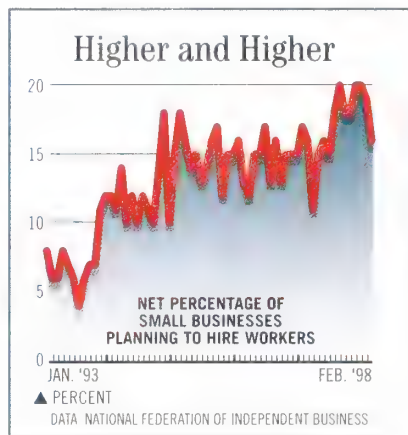
"We felt our employees were talented and motivated. They got us to where we are today," says Holt, 38,

all the time," he says.

And how's business? While the old catalog reached 12,000 customers, the Web site gets 200,000 hits a day and brought in about 20% of Holt's \$10 million in revenue last year.

Retraining wasn't fun at games, but it worked. Now the trick is to keep those loyal employees—and the new cutting-edge skills.

By Beth McGowan
in Waltham, Ma



TOO EXPENSIVE?
ISDN TOO SLOW?

<http://www.direcpc.com>



A DIRECPC™ SATELLITE DISH IS JUST RIGHT.

ALTERNATIVE.

Looking for fast and affordable Internet access for your business today, look to the sky — that's where our satellites are. Small businesses across the country are bypassing crowded computer networks and crowded phone lines for satellite Turbo Internet™ service from Hughes — the fastest Internet access available nationwide — to get up to 3 times faster than ISDN.

BUILT FOR BUSINESS.

A DirecPC satellite dish gives your company advanced business capabilities, too. DirecPC Multimedia lets you broadcast high-quality, real time video to multiple locations with ease. And DirecPC Package Delivery lets you send everything from software upgrades to graphics files to multiple locations in seconds. So get your company's Internet access off the ground and into the sky today. Send your inquiries to: direcpcbiz@direcpc.com

DIR INTERNET



HUGHES
NETWORK SYSTEMS
A HUGHES ELECTRONICS COMPANY

© 1998, Hughes Network Systems, a Hughes Electronics Corporation company. DirecPC and Turbo Internet are trademarks of Hughes Network Systems, a Hughes Electronics Corporation company.

Available at



city



and other retailers near you.

Management

small-business owners simply get crushed by the crunch. Until last fall, Eric Dobke ran Dobke Bakery in Milwaukee, which his father started in 1929. He grew so frustrated with the chronic shortage of qualified workers that he decided to sell the bakery. "We just didn't get any applications," says Dobke, 61.

The new owner, Ken Loges, 56, has solved some of his labor problems by employing his two grown daughters. But when he advertised for a baker, he got only one nibble. And that applicant never showed up for the interview.

PARTNERING IN SALES

IRMCO MANUFACTURING EVANSTON, ILLINOIS

When IRMCO, a \$15 million maker of water-soluble lubricants based in Evanston, Ill., launched a product last year, President Jeff Jeffery didn't even consider adding salespeople to his 20-person workforce. Instead, he found a partner. Today, IRMCO piggybacks on the sales staff of a company that makes a device that uses IRMCO's new lubricants. Both are happy. IRMCO products are widely used in the metal-stamping industry, where the partner wanted a foothold. So now, when its sales folks push the device, they plug the link with IRMCO—and its new lubricants. The resulting calls to IRMCO's four-man direct-sales staff come from informed end users with the authority to buy. "I'm giving him a market, he's giving me a sales force," beams Jeffery. He also is bolstering his sales team with existing employees. One production worker is shifting to sales support. They're all willing to work harder because of a labor-crunch-inspired profit-sharing plan that pays quarterly. "Now, employees don't



NOT OVER A BARREL

Jeffery made a deal with a company that buys his products: "I'm giving him a market, he's giving me a sales force"

have to work their butts off for a year and hope for a raise," says Jeffery. He has gotten proactive on salary, too, renegotiating with key employees before they leave: "In the old days, the first thing we'd discuss was where are we going with customers, not 'Have you had any offers lately?'"

On the tech side, IRMCO has filled jobs with students from Northwestern University's work-study program. IRMCO's draw? Students get experience in product development, not data entry. Some turn into the genuine article: a full-time employee.

By Maria Bers
in Evanston, Ill.

Change the details and it's the tale of the butcher and candlestick maker, too. About all a small-business owner can do is keep tinkering with the ingredients, adding a pinch of creativity here, a dash of flexibility there—and hope for a little bit of luck.

By Kathleen Madigan and Robin D. Schatz, with Ed Updike in New York

For more information on the labor crunch go to BW Plus! at www.businessweek.com or AOL at keyword: BWEnterprise

RECRUITING CAREER CHANGERS

HORIZON COMMUNICATIONS SANTA CLARA, CALIFORNIA

Jonathan Hirshon knows his seven-person high-tech public-relations firm can't vie for talent with the big agencies in Silicon Valley—not with unemployment there running at only 2.8%. So the founder of Horizon Communications seeks out unlikely recruits: career changers who can't tell Java from latte and have no PR experience. "I'm getting people my competitors would never have looked to hire," he says.

His team includes an East Asian scholar, a sociologist, a former cryptographer for the National Security Agency, and a literature major who taught history in Prague. "I can train people about technology, but I can't train them to be smart," says Hirshon, 31.

Recruits study technology for a month, then shadow veterans on client visits and learn to write press releases. It seems to work: Three-year-old Horizon's revenues were \$300,000 in 1996 and \$450,000 in 1997. This year, it projects \$1 million, from such clients as Silicon Graphics Inc. Hirshon offers employees flexible schedules, telecommuting, and competitive salaries of about

\$35,000 for rookies. In return, Hirshon says, these employees provide fresh viewpoints. While most PR folks just "smile and dial," he says, career changers ~~have deeper—like David~~



MOTLEY CREW

Hirshon's recruits don't have experience in PR or high tech, but they do bring valuable fresh viewpoints

McHale, the former history teacher, who spiced up a routine product announcement by focusing on how the technology was used in a South Pole expedition.

"They don't look or talk like PR people," concedes McHale's client, Giacomo Marini, CEO of video equipment maker FutureTel Inc. "They've been surprisingly effective, though."

And that's just the kind of good press that every firm needs.

By Gary Andreu
in Santa Clara, Calif.



© 1996 Lucent Technologies

What's it going to take for your office of five to serve your clients like an office of fifty?

Why you need a Lucent small business phone system. We specifically design our phone systems to meet the needs of businesses like yours. With features such as built-in caller ID and voicemail you'll be more accessible, more efficient and therefore better able to take care of your customers' needs. Plus, our systems are designed to grow easily as your company grows, and are backed by a wide choice of service programs. We're with you for the long haul. So even with a handful of employees, to your customers you'll be big-time all the time. To set up an appointment, just give us a call today at 800 325-7466 ext. 332 or contact your local Lucent Authorized Dealer. **We make the things that make communications work.™**

Every customer likes to be treated as if they're the best customer you have. That's why you need a Lucent small business phone system. We specifically design our phone systems to meet the needs of businesses like yours. With features such as built-in caller ID and voicemail you'll be more accessible, more efficient and therefore better able to take care of your customers' needs. Plus, our systems are designed to grow easily as your company grows, and are backed by a wide choice of service programs. We're with you for the long haul. So even with a handful of employees, to your customers you'll be big-time all the time. To set up an appointment, just give us a call today at 800 325-7466 ext. 332 or contact your local Lucent Authorized Dealer.

Lucent Technologies
Bell Labs Innovations

211 Mt. Airy Road
Basking Ridge, NJ 07920
1 800 325-7466 ext. 332





In the old days, it was difficult for a small business to stay in touch with its customers. The old days, of course, being yesterday.

Between paying the bills, keeping track of costs, invoicing clients, applying for permits, organizing employee pension plans and getting the truck insured, you may feel like you're not giving your customers enough attention. Microsoft has software that can help.

For instance, Microsoft BackOffice Small Business Server speeds up efficiency by automatically sending product updates, sale information or just a simple thank-you to any or all of your customers via e-mail. But what if some of your customers don't have e-mail yet? You can let them know what's going on, too, with a fax right from your computer.

Microsoft Office puts everyday information like names, phone numbers, e-mail addresses and even product-ordering history at your fingertips, so you can respond quickly and effortlessly to your customers' requests. It lets you update information right on your computer while talking to your customers over the phone, which can be quite useful if, say, they change a shipping address or increase a monthly order.

By knowing who's ordered what and when and who's ready to order again, you not only anticipate your customers' needs before they even realize they need it, you know how much inventory to keep in stock, which means your customers get what they want when they want it.

We'll send you our free 16-page small business guide with CD-ROM when you call 1-800-60SOURCE.

We make software to meet your small business needs so you're ready, willing and able to deal with what's around the corner.

Better communication. Better relationships. Better business.

Where do you want to go today? *Microsoft*

www.microsoft.com/smallbiz/

NOW THAT'S CASTING A WIDE NET

The Web offers plenty of options for landing talent

As executive chef at the Eagles Bar & Grille in the chic ski resort of Telluride, Colo., Sergio A. Verduzco takes pride in mixing traditional American dishes with trendy Southwestern flavors. And when he needed a new sous-chef, he used the same mixture of old and new. First he placed ads in newspapers and at culinary schools. Then he posted a help-wanted notice in the jobs section of StarChefs, a popular Web site for professional cooks and other foodies (www.starchefs.com).

The ad talked up the chance to learn cutting-edge cooking amid the glorious San Juan Mountains and pointed to the restaurant's own Web site for details. Within a month, about 20 qualified candidates had responded from as far as Germany—twice as many as answered the old-fashioned ads. Verduzco hired a Web respondent—and marvels at how easy the whole thing was. “You fill in your electronic form, you post it in seconds. It’s unbelievable,” he says. “But what really blew me away was that the service was free.”

That’s not all. Online recruiting can put you ahead of small-business competitors and on equal footing with major corporations. Last year, only about 6% of small companies with Internet connections used them to search for employees, according to a survey by the Arthur Andersen Enterprise Group. Big business, meanwhile, has seized the opportunity: A 1997 survey by the American Management Assn. found 53% of major companies filling job openings from the Net.

ONLINE JOB FAIRS. There’s no one best way to search for talent in cyberspace—it depends who you are, what you’re looking for, and how much you’re willing to spend. Best known are the commercial career sites, such as CareerMosaic and The Monster Board, where businesses of all stripes post help-wanted listings. Typically, the recruiter pays the



freight. At The Monster Board, \$175 buys a single posting for 60 days; at CareerMosaic, it's \$150 for 30 days. Recruiters spend thousands of dollars for more specialized services. Among them: Searching by keyword and credential in The Monster Board's résumé catalog or participating in CareerMosaic's virtual job fairs.

Mark E. Chatow, vice-president of marketing for Roundhouse Products Inc. in Rancho Dominguez, Calif., used The Monster Board to find a head of operations for his 75-person company, a manufacturer of CD carrying cases. Just days after he posted the job, nearly 100 people had submitted résumés by E-mail, and 10 to 12 applicants merited an interview. “It was inexpensive enough that you can experiment and see what works for your business,” he says. Plus, he notes, the Web gives a quick feel for the market.

Less known, but also effective, are places on the Net that cost nothing. The Web sites of alumni groups and trade

SPECIAL REPORT LABOR CRUNCH



Now it's possible to afford nice home office furniture without first having to ask yourself for a raise.

The Cornerstone Executive Desk by Sauder is executive material in every sense of the word. Its rich appearance lends an important, corner-office feel to any spare room in your home. Its spacious size lets

you spread out and conquer the most in-depth projects. And its price suggests you're one

Cornerstone Executive Desk

center drawer and side cabinet

from our Cornerstone Collection. Classic Cherry finish. Also in Alder and Fruitwood. Two file drawers for letter or legal size hanging folders. Model #7344, 7333, 7342. Collection includes matching computer credenza and lateral file.

\$499⁰⁰
or less

of those corporate cost-control gurus. Perhaps you should

think about giving yourself a promotion. Like all of our

furniture, the Cornerstone is made in Archbold, Ohio (pop. 3,500),

one piece by exacting piece and ready for you to assemble. Available at retailers

everywhere. For a brochure and store locations call us at 1-800-4-SAUDER. Or visit us at www.sauder.com/bw.



Good Furniture Made Possible.

SAUDER®

The Internet

professional associations, as well as topical sites such as StarChefs, often post listings gratis. So do many of the Net's 250,000 "listserves"—electronic discussion groups that route E-mail to their members (table). Some of the thousands of loosely organized Internet newsgroups, coalescing around every possible topic, allow job postings, too.

It was old school ties that helped Jack L. Orchard find candidates last year for a position as a Russian-speaking investment officer. Orchard is chief investment officer for UFG-Croesus Advisors Ltd., a Moscow-based asset-management firm with 15 employees that helps foreigners invest in the former Soviet Union. A graduate of Harvard and Stanford universities, Orchard simply tapped into BranchOut, a Web site that promotes networking among school and corporate alumni. Among other things, BranchOut offers free job boards and a fee-based résumé service that culls member profiles to find appropriate prospects. Orchard posted his listing on a section for graduates of elite schools and drew about 25 responses. Many had outstanding qualifications. "This is an electronic version of networking," Orchard observes.

CUT AND PASTE. Web-based businesses, of course, were among the first to recruit online, and the practice is still paying off. Just ask Robert L. Clyatt, chief executive of Web design studio i/o, 360 Inc. In a week, Clyatt snagged both a publicist and a programmer for his 25-person shop in New York by posting virtual ads. A recruiter, he says, would have cost him \$20,000. "I'm a one-man crusade against paying headhunters' fees," he says.

Listserve—generally nonprofit and run by volunteers—get little attention but can be particularly useful. Through E-mail, they reach out to potential recruits who might not be job-hunting. Moreover, messages can be cut, pasted, and forwarded to others who might be. Eve R. Lindemuth often turns to LANTRA-L, a listserve for translators, when her employer, Language Management International Inc., needs specialty freelancers. Lindemuth, manager of worldwide translator relations at the 100-person firm in Englewood, Colo., cautions that headhunters must follow a list's "Netiquette." Some lists don't allow job notices. Others include guidelines for them in their rules. When in doubt, ask the list moderator.

If you use a service such as America Online Inc., you

might post jobs in discussion areas and on electronic bulletin boards. When William C. Hudgins, editorial director of Hammock Publishing Inc. in Nashville, wanted articles for *Road King*, a truck-stop magazine he edits, he solicited authors through a forum for outdoor writers on CompuServe Inc. and quickly corralled 8 to 10 expert scribes.

The narrower your specialty, the more useful a trade association's Web site may be. One example: the "leasing career exchange" on the Web site of the Equipment Leasing Assn. of America (www.elaonline.com), a group for businesses that finance equipment acquisitions. For \$295 (\$49 for nonmembers), you can post listings for jobs ranging

from credit analyst to marketing director. It can't hurt to link from a trade group site to your company's own Web site. If you don't have one, you might consider collaborating with other businesses. Or you could form a consortium: That's what about 28 Rochester (N.Y.) enterprises did at SmartDog, a Web site aimed at attracting high-tech professionals to upstate New York (www.smartdog.org).

If the possibilities overwhelm you, consult *CareerXroads*, a directory that covers 500 job sites. Co-author Mark Mehler suggests nervous tenderfeet learn the virtual ropes at a public library. Want to know even more? Try a recruitment firm's seminar. Tampa-based Clabrooke and Associates Inc., for example, charges \$495 for one-day sessions held around the country. Mehler and his co-author, Gerry Crispin, give workshops for \$595 sponsored through the Corn-

University School of Industrial and Labor Relations in New York. Or consider following Mehler's advice to hire college kids; their Web skills usually beat those of a person manager.

Certainly, online recruiting isn't without its problems. Postings can prompt a blizzard of résumés in your E-mail inbox and fax machine. And if you're skittish about competitors parsing your business plans, avoid posting sensitive job descriptions.

But trawling for workers on the Net may soon be more necessity than an option. Within five years, predicts Robert Thrisk, director of Stanford's career placement center, some "95% of jobs will be posted on the Internet." The percentage of job seekers looking online won't be far behind.

By Pamela Mendels in New York

Go Fish

There's no one best way to troll for workers on the Net. These resources can help you explore the options.

SITES GUIDE The fullest directory of job-related Web sites is *CareerXroads* by Gerry Crispin and Mark Mehler (MMC Group, Kendall Park, N.J. 08824 \$22.95). The authors' own site is www.careerxroads.com.

THE BIG BOARDS To get a feel for job sites, visit CareerMosaic (www.careermosaic.com) and The Monster Board (www.monster.com), where employers pay to post openings. Online Career Center (www.occ.com) charges an annual membership fee. America's Job Bank (www.ajb.dni.us), operated for the U.S. Labor Dept., is free.

WEB NETWORKS Some trade and professional groups' sites list jobs. A good, cost-free example is the New York New Media Assn. (www.nynma.org). BranchOut (www.branchout.com) is a members-only network of college, university, and corporate alumni. Nonmembers pay to post; for \$2,000, BranchOut will pull résumés of 10 qualified, interested prospects from its database.

NET DISCUSSION GROUPS Some good places to find directories of E-mail and newsgroup discussion groups are Liszt (www.liszt.com), Deja News (www.dejanews.com), and Reference.com (www.reference.com).

THRIFTY: One business owner figures two online recruits saved him \$20,000 in headhunting fees

24 Hours.

"Thanks to Roadway, we now operate with greater efficiency."



Two years ago Helmac Products Corporation, maker of the world's most popular line of lint removal products, realized they must **manage the supply chain** with greater efficiency. First, they dramatically **improved product turnaround** time from 5 days to less than 24 hours. Realizing that service is door-to-door not door-to-truck, Barbara

Tomaszewski, Helmac's traffic manager, enlisted Roadway as Helmac's **transportation partner.**

Roadway Rep Lela Norris and the rest of the Roadway crew rolled into

action to help Helmac exceed their **customers' demands.** Then Roadway's John McAhier, assistant terminal manager in Toledo, Ohio, teamed with Helmac personnel to reduce shipment handling and **speed transit time.** The results: faster replenishment of retail stock and greater sales.

Reliable. Responsive. Roadway Express blends the most efficient network with the most responsive work force in the industry to deliver exceptional customer service to you.



ROADWAY[®] Express

www.roadway.com **1-800-257-2837** www.helmac.com
Call your local service center or Roadway toll-free today

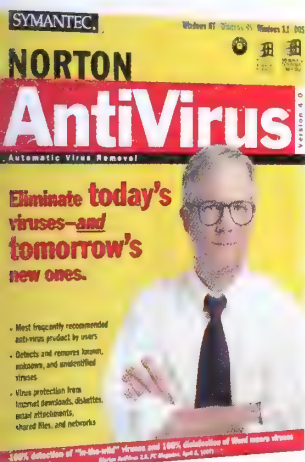
Exceptional Service... No Exceptions

WALK THROUGH WALLS



With Norton™ Products Inside Your Computer There Are No Barriers to Achieving Your Goals.

Down go the barriers. Up goes productivity, whether you're at home or at the office. With Norton products you walk through the walls between you and your goals. Norton products eradicate viruses, blow away junk files, and eliminate software problems before they cause crashes. All behind the scenes, automatically. Go ahead, take the first step.



Norton AntiVirus™ 4.0

are data without sharing viruses. cate and kill known viruses from y source so you can safely roam e web, get email attachments, are floppies and use network s. It works behind the scenes provide continuous protection, you can work with confidence, hout the hassles of chewed-up s and programs.



Norton Uninstall™ Deluxe

Cut through the clutter and be more productive. Automatically clean up junk files and programs that drag down your PC's performance. Maintain custom settings and preferences when copying or moving programs. Try new programs without performance and software conflicts. You'll fly through your tasks without old files and programs dragging you down.



Norton CrashGuard™ Deluxe

Lead a crash-free life. Automatically rid your PC of crash-causing software problems; check for conflicts and download fixes via the Internet; and optimize your hard drive for top performance. No more lost files or screen freezes. You'll enjoy more time to do as you please, free from irritating crashes and unproductive downtime.

Get what you want from your computer. Feel like you can walk through walls with Norton products. Visit your nearest retailer to buy these Windows® 95 products or try them risk-free

www.symantec.com/promos/nci04.html

No Viruses, No Junk, No Crashes, No Barriers.

SYMANTEC™

© 1998 Symantec Corporation. Symantec, the Symantec logo, and Norton AntiVirus are U.S. registered trademarks of Symantec Corporation. Norton, Norton Uninstall, and Norton CrashGuard are trademarks of Symantec Corporation. Windows, and the Windows logo are registered trademarks of Microsoft Corporation. All other brand names or trademarks are the property of their respective owners.



HAVE RESUMES, WILL TRAVEL

An online job board hits the road

In the summer of 1995, college juniors Rachel Bell and Sara Sutton were in a Boston taxi "stressing" about the prospect of finding jobs. Sutton complained that she had surfed the Net for an internship, but the search was fruitless. Bell remembered her father's advice: "You should really consider starting a company with a group of your friends." Their epiphany: an Internet job service for entry-level positions. "We were passionate about this idea," Sutton recalls. "We could reach out to students like us, and we could help our friends."

Friends themselves since their childhood in Pittsburgh, the two women took leaves from their respective schools (the University of California-Berkeley for Sutton and Hobart & William Smith College for Bell) to flesh out their idea. They raised some \$60,000 from family and acquaintances and read every business magazine and book they could find before launching JobDirect (www.jobdirect.com) in August, 1995. Then they purchased a recreational vehicle and hired graffiti artists to spray-paint it to look like their Web site. They equipped the vehicle with 15 laptops for students to type in résumés and drove off on their first promotional tour of college campuses in the fall of 1996. Forty-three campuses later, their database contained the *curricula vitae* of 5,000 young job-seekers. "We knew it would work—there was just no way it couldn't," says Bell.

After a lean first year, that certitude paid off. JobDirect says revenues exceeded \$1.3 million in 1997 and will top \$3 million this year, all from the fees paid by employers to use the service. The Stamford (Conn.)-based company has been buoyed by two trends: the surge in online recruiting and the labor squeeze. Collegians look better than ever to prospective bosses these days. The National Association of Colleges

ROADIES

Bell and Sutton's specially equipped RVs tour colleges

and Employee predicts a 19.1% increase in new grads hired this year. Of course, Bell and Sutton are not the only ones offering online job databases. Decade-old Jobtrak (www.jobtrak.com), with a database almost twice as big as JobDirect's, competes most directly to place entry-level workers. Unlike Jobtrak, JobDirect automatically alerts candidates by E-mail when a position is posted that meets specifications they've entered. After following a link to get more information about a job, students can click on a response button to dispatch their résumé. Students use JobDirect for free (80,000 résumés are now on hand), while more than 100 clients, including Pri-

Waterhouse, Sun Microsystems, and Teach for America, pay from \$500 a month to the five figures. The fee depends on such factors as how many jobs they're advertising and how broad a geographic area they wish to target. JobDirect technology allows recruiters to search the database by student's state, major, college, or grade point average, among other criteria.

"JobDirect paid for itself in two months," says Heath Cooper, a corporate recruiter for CH Robinson Inc., based in Eden Prairie, Minn., a transportation company that has hired 17 employees through the service.

CONCERT TOURS. To persuade students to register, JobDirect has shown some imagination in marketing itself. The company sends out its three "buses," each equipped with beds and a kitchen for the student employees, to campuses twice a year and accompany a popular summer concert tour. The company also gives away free mousepads emblazoned with its name and pays more than 250 student representatives at schools around the country to talk up the service.

The co-founders, meanwhile, still marvel at the path their own careers have taken. "Some entrepreneurs at age five aspire to be Bill Gates," says Sutton. "Rachel and I didn't expect to go into business. We weren't techies, but we didn't take finance classes. But we've been told one of our strengths is that we admitted we didn't know anything." The offspring of successful executives, they were savvy enough to hire experts to execute their vision. For example, Robert E. Ford, a former Tufts University professor and consultant, is president and chief operating officer. And recently, Kevin E. Gage, former president and chief executive officer of Hometown Bancorporation/Bank of Darien, was tapped as CEO. Sutton, who heads up the student-representation program, and Bell, who handles client services, both serve on the board.

Now owned by about 60 private shareholders—Sutton and Bell each hold an 11.6% stake—JobDirect has raised \$5 million through private placements and is negotiating with several venture-capital firms to bankroll future growth. Will success in business trump education for these 24-year-old dropouts? Both swear they'll finish college soon. But it may be that they've grown too accustomed to their own road rule.

By Carlye Adler in Stamford, Conn.

SPECIAL REPORT LABOR CRUNCH

8:02 a.m. Installed network.
8:59 a.m. Connected with staff.
(In more ways than one.)



Introducing Intel InBusiness™ networking products for small business.

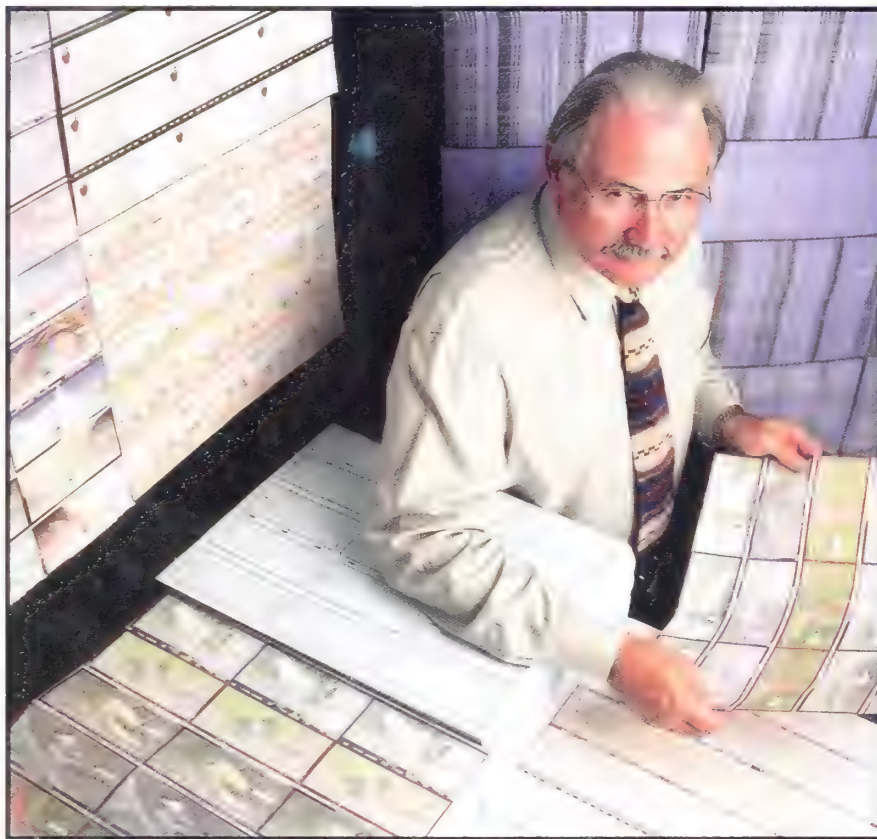
The hardest thing about setting up a small business network is getting over the idea that it's hard to do. Intel InBusiness™ products feature stackable hubs and switches specifically designed for your small business. With just four simple installation steps, anyone can set up a network quickly and easily.* So your team can share Internet access, e-mail, files, printers or deep thoughts.

For more information, call 1-800-538-3373, extension 670, or visit us at our Web site. So you can get in touch with your employees. Not to mention their PCs. [▶ www.intel.com/network/bw.htm](http://www.intel.com/network/bw.htm)

intel

NOW, MORE CAN JOIN THE ESOP GAME

The privilege is extended to S-corporations—with the pitfalls



David Copham is one persistent man. For years, the owner of Liberty Check Printers had wanted to set up an employee stock ownership plan (ESOP) at his Mounds View (Minn.) company. Yet like many small businesses, \$70 million Liberty was an S-corporation, where the owners pay taxes on earnings, but the company itself pays no corporate tax.

By law, S-corporations were barred from setting up ESOPs, as other small companies can do. But Copham fervently believed that employee ownership would be in everybody's best interest. Working closely with a group of like-minded advocates that coalesced around the S Corporation Assn., a Washington-based trade group, Copham made changing the law a virtual obses-

sion. Finally, after three years of lobbying, Congress attached an S-corp ESOP provision to a 1996 small-business bill. Copham even briefly met Bill Clinton at the signing ceremony, where he got a quick chance to tell the President how important it was to encourage employees to become owners.

Victory was fleeting, though. An oversight in the bill's wording meant that S-corporations still couldn't start ESOPs. Copham didn't give up. "He just wasn't going to stop," says Robert Blair, a Washington lawyer and chairman of the S Corporation Assn. "It was his energy and persistence that kept things rolling." Finally, last year, Congress erased the remaining barriers, and on Jan. 1, Liberty became the first S-corporation to adopt an ESOP. The company's roughly

500 employees got their first shares in the first quarter and now own 5.47% of the company. Copham helped open the door for the country's other 2 million S-corporations to walk through.

ESOPs hit the big time during '80s deal mania, when large, publicly traded companies embraced them for their tax breaks and as a defense against hostile takeovers. With the demise of leveraged buyouts, however, stock options replaced ESOPs as public companies' favored mechanism for turning employees into owners. These days, more than two-

BENNY FROM HEAVEN?

For crusader Copham, the ESOP is one more lure in a tough labor market: "Gen-Xers... just won't work for a paycheck anymore. They want an equity stake in something"

thirds of all ESOPs are adopted by closely held companies.

Under the new law, S-corporations can finally join the game. Think of ESOPs as a kind of retirement plan with a host of tax advantages for owners and employees alike. The company makes annual contributions of stock to the ESOP. As with other benefit plans, taxes are deferred until employees start withdrawing their shares in retirement. The company gets to deduct its contributions to the ESOP. It also can deduct interest on any money that's borrowed to fund the plan, as well as dividend payments used to repay the loan. For repayment of the principal is deductible.

S-corporations can get many of the same goodies now, with one major exception: Company owners can't deduct taxes on the sale of their stock. Still,

EVEN THE BEST

printers COME

WITH A PART

missing.

A printer isn't much use until you put the right paper into it. Paper is a critical component that affects the quality of what you print.

If the paper isn't bright enough, for instance, your colors could turn out dull. If your images aren't sharp, it's probably because your paper isn't smooth enough.



Hammermill gives you the brightness and smoothness you need. Hammermill Jet Print is engineered to get brighter colors from an inkjet printer. And Hammermill Laser Print is specially made to give you sharper results from a laser printer. Get your printer its missing part. Get Hammermill.

To a six-year-old
having an
asthma attack,
this is like
blowing out a
forest fire.



Any six-year-old can blow out birthday candles... unless that six-year-old is having an asthma attack.

Asthma is a cruel disease that obstructs a child's ability to breathe. It can attack a child any time, anywhere...even in the middle of a birthday party.

Right now there is no cure for the nearly 5 million children who live with the horrors of asthma.

And with asthma on the rise...your child could be next.

That's why as adults we must do something now...

Call the American Lung Association and learn how you can help.

1-800-LUNG-USA

Because... When you can't breathe, nothing else matters.

**AMERICAN
LUNG
ASSOCIATION**

www.lungusa.org

ENTERPRISE

Finance

holders of other types of private companies can do so if their gain from the sale is rolled over into the equivalent of a pension plan.

One key advantage of ESOPs for small-business owners is that by selling to employees, owners have a ready market for their stock after it is assessed by an outside valuation service. "Many privately held and family-owned businesses would prefer to transfer ownership to employees rather than sell to a larger company or a foreign multinational," says Jared Kaplan, partner at

cautions Joseph Blasi, a management professor at Rutgers University. When ESOPs are established just to milk the tax breaks—and employees aren't given a bigger say in day-to-day operations—companies often do worse than before, he and other experts warn. The reason: Employee expectations are dashed, and morale and productivity suffer, studies show. "Participation lets employees act like owners, and the information allows them to be responsible owners," says John Logue, head of the Northeast Ohio Center on Employee

ESOPs: Now For S-Corporations, Too

New laws allow S-corporations to set up limited employee stock ownership plans. Here are the benefits:

FOR OWNERS A ready market to sell their stock; an incentive for improved worker productivity as employees become owners; an employee benefit that might attract and retain workers in a tight labor market.

FOR EMPLOYEES Deferred taxes on stock gains until retirement, as with other pension plans; improved morale.

FOR COMPANIES The ESOP is exempt from taxes. If an ESOP owns 30% of a company, for example, 30% of the earnings go untaxed. The enhanced cash flow should increase the value of the company's shares, and dividend payments can create a pool of cash to buy additional shares or to pay off a loan.

FOR C-CORPORATIONS Traditional C-corporations with an ESOP may find it advantageous to become an S-corporation. The benefit is potentially huge if the ESOP owns 100% or so of the company, since taxes would be reduced to zero. The trade-offs, however, become a lot trickier (and the benefits less compelling) if the ownership share is under 70% to 80%.

the law firm McDermott, Will & Emery.

Smaller companies also see ESOPs as another benefit they can offer in a competitive labor market. Liberty has two employee pension plans, including a 401(k); the ESOP is one more lure. "It's hard to keep Generation-Xers," sighs Copham. "They just won't work for a paycheck anymore. They want an equity stake in something." Adds Corey Rosen, executive director of the National Center for Employee Ownership: "More and more owners believe they need to do ESOPs to retain and attract people."

NO MAGIC BULLET. Supporters argue that for companies, the promise of higher productivity after ESOPs can even outweigh the tax breaks. ESOPs can be especially effective when combined with employee participation in company decisions and when management shares financial information with employees. On average, such companies can expect to grow 6% to 11% faster with an ESOP than without one, says Rosen.

Still, "ESOPs aren't a magic bullet,"

Ownership at Kent State University.

There are other downsides to ESOPs. They're complicated to set up and require a lot of outside professional services. The typical small business will shell out \$25,000 to \$40,000 to do the things it takes to get an ESOP going. And workers wind up with a big chunk of their retirement money tied to the fortunes of one company. The risk is the greater at a small company, where survival is often more tenuous than at large, publicly traded giants. Still, employees come out ahead if the alternative is no pension plan at all or one that's less generous than an ESOP—and small companies are less likely to have retirement plans than large ones.

ESOP enthusiasts often get carried away when they hail employee ownership as the vanguard of a "people's capitalism." But ESOPs do offer owners a good way to turn employees into shareholders. Now, owners of S-corporations have the option to join the party.

By Christopher Farrell in St. Paul, with Mary Beth Regan in Washington

"Here's a tip."



"And here's one for you:
pineapple futures."

READY FOR A HOTEL THAT'S ALL BUSINESS?



MEETING FACILITIES ROOM SERVICE VOICEMAIL BUSINESS CLASS IS STANDARD

CALL 1-800-HOLIDAY
FOR RESERVATIONS.

STATES
IA

Atlanta
Boston
Dallas
San Diego
San Francisco

SAS
ark
RNIA
and
Plus

CONNECTICUT
Stamford

DISTRICT OF
COLUMBIA
Alexandria, VA

FLORIDA
Clearwater
Orlando (2 locations)
Miami
Tampa

GEORGIA

ILLINOIS

INDIANA

LOUISIANA

MARYLAND
Solutions

MASSACHUSETTS

MICHIGAN

MINNESOTA

MISSOURI

St. Louis
St. Peters
St. Charles
NEW JERSEY

NORTH CAROLINA

OHIO

PENNSYLVANIA

SOUTH CAROLINA

TENNESSEE

TEXAS

(6 locations)
Houston

San Antonio
VIRGINIA

WASHINGTON

WISCONSIN

CANADA

NEW SCOTIA

ONTARIO
Brampton
Toronto

QUEBEC

MEXICO

SOUTH AMERICA
COLOMBIA

PUTTING TEETH INTO OFFICE SECURITY

You can turn confidential papers into confetti without tearing up your budget

At first blush, shredders seem like overkill for the average business. A defense contractor or lawyer might need to destroy documents, but no one wants to go through your company's trash, right?

Don't be so sure. While you certainly never would be caught dumpster-diving, your rivals just might relish the chance to get a peek at your strategic memos, financial statements, tax returns, and other confidential documents. John P. Perozzi, president of Basic Services in Norcross, Ga., remembers gaining a new customer for his paper shredders after an insurance company manager caught an ex-employee going through the garbage bin, hoping to find client leads for his new job at a rival. "It happens more often than people want to admit," Perozzi says. The problem is hardly limited to trash at the curb: The American Society for Industrial Security figures that 70% of information theft is committed by insiders, such as temporary and contract workers, disgruntled employees, and people moving to other companies.

That's why sales of shredders are topping \$280 million a year. Costing from as little as \$30 to well over \$10,000, these machines can chop a sheet of paper into anywhere from 30 to 7,000 pieces. Which machine you pick depends on just how nervous you are and how much shredding you plan to do.

Shredders come in two basic types. Strip-cut shredders work like a pasta machine, turning sheets of paper into 30 to 100 spaghetti-like strips per sheet. Cross-cut shredders take the added step of cutting those strips along their widths, resulting in about 10 times the number of confetti-size pieces. Still another kind of high-security shredder cuts the sheets into even



OFFICE TECH

smaller bits. Unless you are destroying information on UFO coverups or working with the government on classified projects, you can probably skip this last version, which starts at \$2,000.

For security, cross-cutting is clearly superior to strip-cutting. "When you put something through it, that's it," notes Barry E. Marsh, security manager at Bell Helicopter/Textron, based in Fort Worth. "No one's going to be able to piece it together

and read it." Some strip-cut users get around that issue by mixing the remnants of each page with hundreds of other shredded sheets, which should deter all but the most diligent snoop. In fact, Gyrus Systems is confident enough to use its micro-shreds to line boxes when shipping software, instead of employing Styrofoam packing material. "The peanuts get kind of expensive," says Suzanne A. Eubank, office manager for the training management software publisher based in Richmond, Va.

After security, you need

DATA SENTRY:

Shredders can chomp a sheet of paper into 30 to 7,000 pieces in seconds—and even chew the staples

to consider capacity—how many pages the shredder can accept at once. According to dealers we interviewed, manufacturers' claims should be taken with a grain of salt. "If a speedometer on a car goes to 100 miles an hour, but you don't take it there," says Bear Brakke, sales manager for Denver-based Paper Processing Solutions. Similarly, he says a shredder might claim it will cut 15 sheets per pass, but if you do that continuously, the machine is likely to burn down in short order.

So what's the best blend of price, security, and capacity? We tested the low-end models from three leading manufacturers and analyzed eight top-of-the-line desktop models from the top manufacturers. If your business into

four more desks: \$625

second laser printer: \$999

larger conference table: \$755

becoming a bigger fish in the pond:



the new Executive BusinessCard has a higher credit limit and
a range of payment options designed to help manage your cash flow
to learn how to apply, call 1 800 727 8825



there are some things money can't buy.
for everything else there's MasterCard.





Chances are you didn't go into business to fulfill a lifelong f busywork.

From: Microsoft Office 97 Small Business Edition
Sent: Monday, 9:00 a.m.
To: Everyone who has to do everything
Subject: How to do it.

Microsoft Office 97 Small Business Edition helps you save time on the work that needs to get done, so you can spend more time on the work you actually like to do. So, pound away on letters and documents knowing Office 97 Small Business Edition is following along, correcting your spelling, watching your grammar, and generally helping out when you need it. Pull up your budget and accounting numbers and analyze them in ways that make it easier for you to make informed decisions. Use the Microsoft Outlook™ integrated e-mail program to keep in touch with customers and vendors and stay on top of your schedule. And because Office Small Business Edition includes Microsoft Publisher 98, you can create your own professional-looking newsletters, brochures, business cards—even Web sites. In other words, Office 97 Small Business Edition is a suite of smart, easy productivity tools, linked together to help you do your best work and circumvent the busywork. To learn more about it, and to find out about the free* product enhancements and assistance you can get through Microsoft Office Update, visit

Get Online and get In Touch!

Business Week Online's Small Business Center on America Online is a place where small-business owners and entrepreneurs can find hard-to-get news and information important to their needs. There's plenty to explore—and to do:

ATTEND

specialty scheduled online conferences featuring experienced entrepreneurs who can answer your questions.

COMMUNICATE

on the message boards. Exchange ideas with colleagues and find out what works.

CONNECT

easily to World Wide Web sites for small business flagged by BW as best bets.

DOWNLOAD

transcripts of past online conferences about small business and other subjects..

INTERACT

with Business Week editors.

BE IMAGINATIVE

Use the Small Business Center in the way that works best for you and your business.

From the Business Week Online main screen, click the BW Plus! button, then select BW Online's Small Business Center from the list of BW Plus! choices.



For a free trial diskette including 50 free hours on AOL, call 1-800-641-4848 and mention Business Week.

ENTERPRISE

Buyers Guide

to use a shredder only occasionally, and you're not dealing with state secrets, a model costing less than \$100 will suffice. All the models we tried came with their own plastic bins to hold the shreds, a paper sensor that automatically activates the shredder when a sheet is fed into its mouth, and a narrow opening that helps prevent stray fingers from getting caught in the blades.

Of those, the Royal Orca Micro won on all counts. At \$49.95, it was the least expensive model we tested, despite its use of the typically more expensive cross-cut shredding. It took just three seconds to reduce two stapled pieces of paper to a palmful of confetti—staples included.

other shredders. More important, the Intimus features a hefty 0.6 horsepower motor, which means it can munch up 15 sheets at a time and hack through paper clips and staples. Although the Intimus 300 sports a hefty price tag of \$949, dealers say that discounts of 20 to 30% are common.

For absolute security—and if you want to shred the occasional presentation transparency—check out the \$999 MBM Destroyit 2400 C/C. This cross-cut model produces twice as much confetti as its closest rival by slicing and dicing documents down to $\frac{3}{32}$ in. by $\frac{1}{8}$ in. It also features mobile casters, which makes it easier to move from room

Crunch Time

Occasional users can spend as little as \$50 on a shredder; a good heavy-duty machine will cost nearly \$1,000

VENDOR/MODEL PHONE	TYPE OF CUT	NUMBER OF STRIPS / CUTS	LIST PRICE	MAX PAPER CAPACITY	STRONG POINT
INTIMUS 300 800 775-2122	Strip	68	\$949.00	15	Heavy duty
MBM DESTROYIT 2400 C/C 800 223-2508	Cross	1,700	\$999.00	6	High security
ROYAL ORCA MICRO 908 526-8200	Cross	1,000	\$49.95	2	Good value
DATA: BEACON RESEARCH GROUP, INC.					

Drawbacks included the 4-inch throat, an inconvenience that requires most sheets to be folded before they can be shredded, and an inability to chew through paper clips.

STOP AND GO. Other low-end models claimed much higher capacity, but the reality proved different. The GBC Shredmaster 55X boasts on its box that it can shred three to five pages at a time, but its brochure reports a two-to-three-sheet capacity. The latter is more realistic; with four sheets, the shredder stopped midway and needed us to coax it the rest of the way by flipping repeatedly between the reverse and forward settings. Similarly, the Fellowes PS55 slowed considerably when we fed it the maximum five sheets it purportedly can handle; three is more on the mark.

Do you regularly shred marketing plans, client information, internal memos, and sales leads? You'll need something more powerful. Most businesses should be happy with the Intimus 300 strip-cut shredder. It produces strips just $\frac{1}{8}$ in. wide, not bad compared with the $\frac{1}{16}$ -in. to $\frac{1}{32}$ -in. pieces made by the

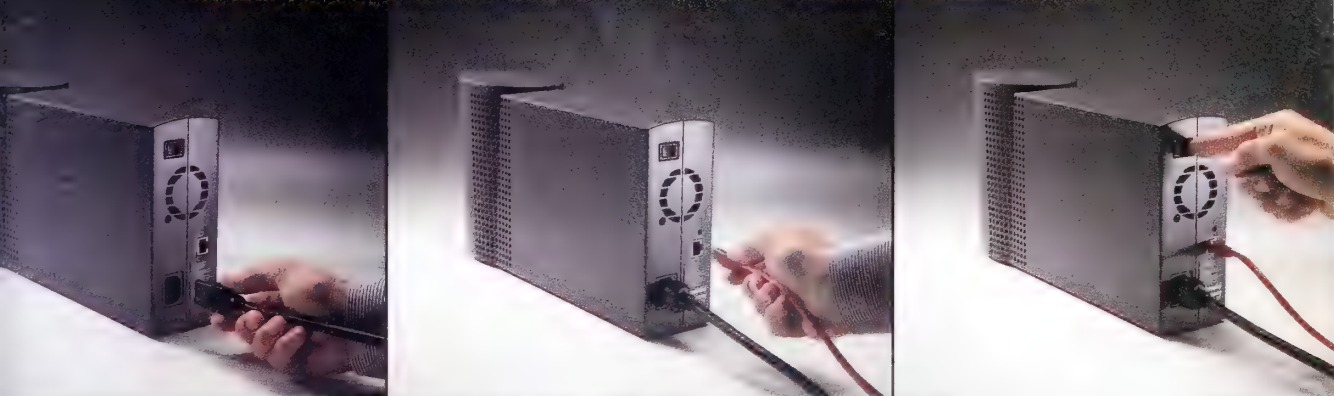
room. The primary drawback is a smallish, six-sheet capacity, and transparency shredding should be kept to a minimum. Not only is a transparency more difficult to shred, but if the shredder's motor has been working steadily, the heat generated could melt the plastic and ruin the unit.

No matter which model you buy, keep in mind that shredders aren't very picky eaters. H. Kim Jones, owner of Capital Shredder Corp. in Rockville, Md., remembers demonstrating a unit in a lawyer's office when his tie got caught in the shredder's mouth. "Next thing I knew, my nose was bouncing against the shredder, and the lawyer was just craning up," says Jones, who notes: "I lost the tie, but gained a sale." Sounds like a valuable trade secret. Commit it to memory, then shred this article.

By Mie-Yun Lee, editorial director of BuyersZone (www.buyerszone.com), Boston

For more information on shredders, go to BW Plus at www.businessweek.com or AOL at keyword BWEenterprise.

Plug it in, turn it on. Now adding network storage is a Snap!



Starting at just \$995, the Snap! Server™ from Meridian Data is everything you want in a storage server:

It comes preconfigured to recognize your network, so you really can just plug it in and turn it on — with no downtime for your existing servers. And with prices ranging from \$995 for the 4 GB server to 12 GB for \$1795,

Snap! Server redefines network storage, offering the perfect combination of quick and easy installation at prices

never-before-seen for a file server. In fact, Snap! Server is so hassle-free, it comes with an unconditional

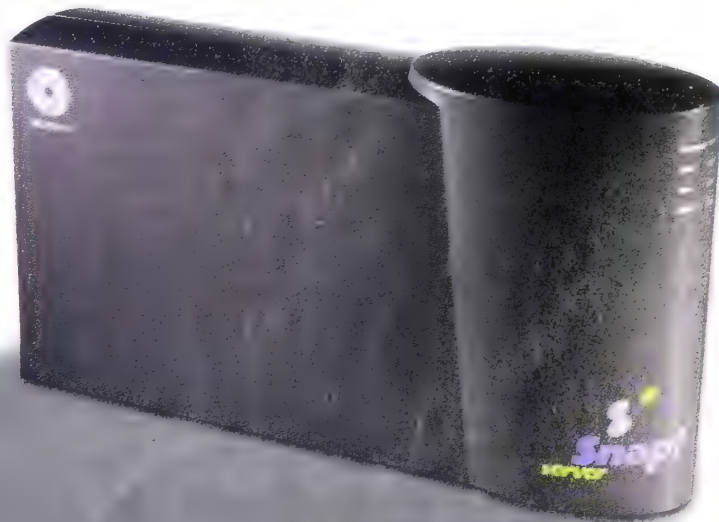
30-day money-back guarantee. And now, you could win a Snap! Server just by visiting our web site

at www.meridian-data.com/busw or simply call **1-888-343-SNAP ext. 600**.



MERIDIAN
Network Storage Made Simple™

COMPUSA
THE COMPUTER SUPERSTORE
1-800-CompUSA



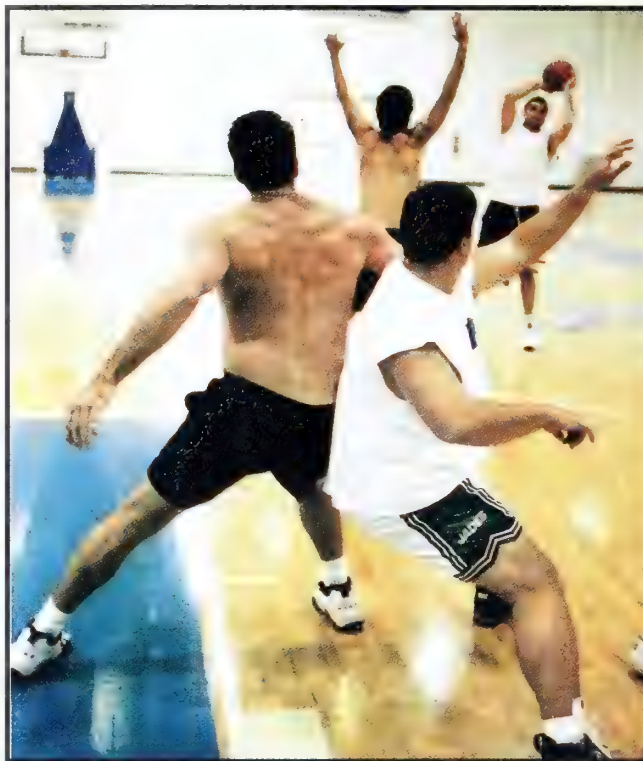
Anka Milin gives a new spin to the old notion of networking. Three times a week, the 33-year-old human resources director for Lifetime Television plays volleyball—developing her game, and often, new contacts. She has recently sent business to two entrepreneurs who were teammates in the New York Urban Professionals Athletic League; one's a party planner, the other a technology recruiter. "If I'm playing with them, I'm going to help them," Milin says.

Meanwhile, down in Boca Raton, Fla., sports marketer Steven J. Tebon met a Perrier Group of America executive who became a major client after the two played basketball in an informal gym gathering known as the Sixth Man Club. "I didn't even know who he was when I first met him," says the 39-year-old, "but we just clicked on the basketball court."

Clicks like that are converting amateur sports into a whole new ballgame. Getting together with your buddies to shoot hoops is a venerable tradition, of course. But these days, the pickup players say they are increasingly likely to talk business instead of trash. More women have gotten into the game now, too, thanks to legal requirements that opened up team sports to leagues of girls—and they're eagerly joining in.

TEAM PLAYERS. The boom in golf, long known as the game of business, has obscured the rapid growth of team-oriented sports. The number of basketball players, for instance, has surged 26% in the past 10 years to 45.1 million. (Golf is up just 18%, to 26.3 million, according to the Sporting Goods Manufacturers Assn.)

Now, it turns out, business can be



DOWN TIME

Contact Sports

AMATEUR LEAGUES ARE BECOMING INCREASINGLY IMPORTANT FOR NETWORKING

done on the court just as well as the course. Maybe better. Teams allow you to rub elbows with dozens of teammates and competitors, not just a preselected foursome. Players claim that



BONDING: Players get to know each other quickly

bonds forged through this intense competition are a cut above those created by cocktail chit-chat and business-card exchange—or even slower-paced sports.

"To win, you have to take on the characteristics of the group," says veterinarian Cheryl Harris, who belongs to both soccer and ice hockey teams in Cincinnati's flourishing public leagues.

Boosters further argue that the pressures of gritty competition can reveal personality traits that might otherwise take months to emerge. "You get a bead on how competitive and how fair-minded people are, and whether they're willing to share the ball," says attorney Jim Johnson. He partly credits his team play with

HOOPS IN FLORIDA: From teammates to clients?

attracting some 15 new clients from his weekly basketball games at the YMCA in Decatur, Ill. Sports provides a unique framework for making those judgments, says Glyn C. Roberts, a sports psychologist from the University of Illinois. "In sports unlike business, the rules are always understood," he says. "It's easier for people to build up trust, or lose it, depending on how they live up to those rules."

Translating tough competition into business connections is a delicate operation. Even if you're consciously prowling for customers or a new job, don't be a suck-up, counsels Chris Ballard, who wrote *Hoops Nation*, a chronicle of his 48-state tour of pickup basketball courts. "People will respect you more if you act as an equal. They'll want to hire someone who gives 100% effort, not who says, 'Nice shot, sir.'" Still, you should also behave yourself; when it comes to role models, think Grant Hill rather than Dennis Rodman. "Be a hothead or give the umpires a real hard time, and who is going to want to do business with you?" asks Brock Witmyer, who runs public leagues for Lakeland, Fla., and has seen how others react to bad attitudes.

Above all, love the game. That, says Larry Schnier, another player in the Sixth Man Club, is what keeps his basketball league going strong. "Though we all do work for each other, it all goes back to the basics," says the former college roundballer. "Getting together and sweating for an hour and 15 minutes."

Some athletic activities are less physically demanding, though. If you want to mingle while keeping your cool, you can always try America's longtime favorite participatory sport: Bowling anyone?

By Dennis Berman
New York

www.yourname.gone

Have you
secured
your company's
Internet name?

You already know how important the Internet can be to your business. You fully realize that your company's Internet address is your storefront on the World Wide Web.

You're well aware that if you don't register that address, your competition just might. But you *still* haven't secured your company's Internet identity. What are you waiting for? Go to www.thedotcompeople.com right now and register your company's name. It only takes a few minutes ... and costs just \$60 a

year. Once you have it, you're free to use it — or just hold on to it — for as long as you like. But don't delay. More and more .com addresses are disappearing

every day! If you don't get yours *today*, it could be gone *tomorrow*.

the dot com people™
from NETWORK SOLUTIONS



www.thedotcompeople.com

Or call toll-free 1-800-557-0230, ext. 101

Is This What Your Customer Looks Like?

Symantec Helps You Focus On Your Customer.

As a small business owner, you know that keeping your customer in focus is critical to your success. That's why you need Symantec Small Business Software. Symantec has a line of products for small businesses like yours that will help you be more productive and stay well protected. And that means more time in front of your customer and less time in front of your computer. Which is exactly the way it should be.



CALL 1-800-835-6222 EXT. 9NA22 TO ORDER YOUR FREE 30-DAY TRIAL CD!

SYMANTEC

BASKETBALL

THE NBA: WHY PUSH MAY COME TO SHOVE

faces hard bargaining with players. Threat to next season?

Let's face it: Despite some playoff excitement, this has been the year of the National Basketball Assn. lashed on its own shoelaces. Low scores because of play-their-own-game hot seats, the Latrell Sprewell incident, the sizzle end of the Jordan Era with no one to fill his size 13s, drug charges, attendance as low as 15% to 20% in some cities. Why, even sneakers sales are off.

Once the model of a disciplined, lucrative league, the NBA now finds itself at crossroads as it sweats a summer heated collective bargaining and the possibility of its first work stoppage. It's ironic, but part of the reason the NBA has reached this point is a decision made over a decade ago when it found itself at another crossroads.

CLAUSE. The year was 1983, and the financially troubled league's future looked dicey. In a united effort, negotiators for owners and players hunkered down to fashion a rescue plan whose centerpiece was a salary cap. One of the cap's inventive features was dubbed "the Larry Bird Exception." Essentially, it lets franchises exceed the cap by any amount to sign their own players.

At the time," says Russ Granik, who was then the league general manager and is now deputy commissioner, "it was something the league wanted every bit as much as the players."

To more. The Bird Exception now is anathema to Commissioner David Stern and wary-conscious NBA owners, who blame the loophole for driving player costs to spiralingly absurd levels. And though they won't say as much publicly, eliminating or modifying the rule will be a major ambition for management at the bargaining table.

Don't expect the players to roll over, though.

"Certain issues will be blood issues, ones that the players will never concede on," says Steve Kauffman, a California-based agent.

Clearly, however, something has got to give. Under the current contract, the "soft" salary cap places restraints on what teams can pay their players. This season's cap was \$26.9 million. With a new, four-year, \$2.65 billion TV package in the bag, next year's cap, under present rules, would probably top \$30 million and maybe even double the \$16 million figure of just three seasons ago.

The pact now in place guarantees players 48% of "basketball-related income" (BRI) but

says the NBA can reopen negotiations if player compensation climbs to 51.8% of BRI. It hit 55 this season. In March, the owners voted 27-2 to reopen talks.

A major reason is the Bird Exception, which, say league officials, has been ruinous for the profitability of many clubs. "No one anticipated the level teams would go to to keep their own players," says Granik.

Alternatives to the Bird Exception outnumber the tattoos on Dennis Rodman. Certainly, the league would love to keep the cap and eliminate the Bird loophole. Then, there's talk of a luxury tax levied against teams that spend beyond the cap—an idea that Stern floated two years ago. But whatever Stern proposes, NBA observers believe he will take aim at the widening economic fault line among players.

PAY GULF. The NBA's middle class is vanishing, leaving fabulously wealthy megastars and roughly 24% of players who collect minimum salaries:

\$242,000 for rookies, up to \$326,000 for veterans who have been on the same

team at least two years. "My guess is Stern will increase the minimum salary (for veterans) to \$400,000 or \$450,000. In exchange, he'll want a cap on the high end," says agent Marc Fleisher.

Megasalaries may be manageable for such teams as the Chicago Bulls or the New York Knicks. For small-market clubs, however, they're killers. This season, only 6 of 29 franchises have payrolls under the cap—and none of them made the playoffs. Is something going to give? Fleisher predicts that next season will start on time, as it always has.

"Stern has a good deal, not as good as he'd like, but a much better deal than he'd get from the present union leadership," he says. Adds Kauffman, hopefully: "I just don't see a work stoppage. Both sides are way too smart for that."

True, but one side may be a tad slicker than the other. Under the NBA's new deal with NBC and Turner Sports Inc., the league gets paid the initial installment of its rich deal even if it delivers no games during the first season.

By Mark Hyman in Baltimore, with Jay Weiner in Minneapolis



SQUEEZED:

The Minnesota Timberwolves had to shell out \$125 million to keep pivotal player Kevin Garnett

WINNERS

The Best Product Designs of the Year



A great product shift is sweeping the marketplace. Office equipment is out, consumer appliances are in.

Hard-edged, superpowerful technology is out. Comfortable, friendly technology is in. General-purpose computing is out. Single-task electronic gizmos are in. Fixed, stationary products are out. Mobility is everything. The new product paradigm? Picture Motorola Inc.'s TalkAbout Two-Way Radio. It has one purpose and is simple to use, communications-based, and interactive. Plus it's fun, great for skiing, mountain biking, or trekking in Disney's new animal theme park.

This shift also has a serious side. Take a look at the 1998 Industrial Design Excellence Awards for products from around the world, juried by the Industrial Designers Society of America and sponsored by BUSINESS WEEK. For the past two decades, growth in the U.S. and elsewhere has been driven by the dramatic rise of computers. Many of the best design minds in the world gravitated to them, generating brilliant, fresh products. But as the winners of this year's IDEA contest show, computers have matured into commodities—nicely designed, but not leading edge innovation.

Today, the Net is fast becoming the driving force in innovation and design. Net





MOVIE MATE

BL's Simply Cinema serves up a home theater sound system

IT
at cable
re Sun's
ion a
book

appliances are the hottest new product category. The breakthrough product of 1998 is a kind of Net VCR called the Audible MobilePlayer, a portable appliance that downloads audiobooks, lectures, music, and conferences from the Web for listening in the car—or anywhere (page 83). Another IDEA winner, Eastman Kodak Co.'s Digital Science DC210 Zoom Camera, is yet another Net appliance. And with its

new Minstrel wireless modem, the PalmPilot (not an IDEA winner this year) will be able to plug into the Internet anywhere and serve as a major Net appliance as well. Juror Peter Trussler, director of corporate design for Northern Telecom Ltd., says that “the shift from hardware

TALK TO ME, KID

Simplicity and fun make Motorola's two-way radio a hit



SPRY SPYDER

Plymouth's concept car is made of recyclable plastic

ONE GREAT LEAP

The A.E.O.S. overshoe even polishes your loafers as you walk

to broadband media—communication and information”—is under way. He foresees a segmented market with a plethora of consumer devices.

The shift toward consumer products is perhaps most evident in the nostalgia boom, well highlighted by the IDEA winners. The Volkswagen Beetle, a gold winner, of course epitomizes this trend toward reinventing the familiar with new technology. So does Sunbeam's old-but-new hot pot, the Slow Cooker—the anti-microwave. The mantra seems to be: Design to restore nice



omic Power Link
es repetitive stress

Annual Design Awards

memories, make the product easy to use, and keep the technology hidden. "People have low tolerance for products, because their lives are stressful and they just have so many new gizmos," says juror Daniel Formosa, consultant to Smart Design in New York. "They don't have the time or energy for complicated instructions."

If the innovation cycle is turning away from standard business computers, designers used to making business and office-style equipment face new challenges. They'll need to sense consumer wants and tastes. Which may explain why this year, of the companies winning two or more awards, 7 out of 15 were from

Europe or Asia. There were winners from Belgium, Britain, Denmark, Austria, Italy, Norway, Korea, Singapore, Japan, Taiwan, and Canada. Perennial IDEA winners Philips, Thomson, Samsung, and Sony certainly know how to design and sell consumer products. Will they ride the next wave of Net appliances, the way Nokia Corp. and L. M. Ericsson are taking the lead in cell phones that connect to the Web?

It's no accident that the largest growth category this year was consumer items.

Many design firms, among them IDEO, Fitch, ZIBA, frogdesign, and Herbst Lazar Bell, are helping corporations invent strategies for the paradigm shift. Bill Moggridge at IDEO, which won six IDEAs for the Audible MobilePlayer and the great interactive interface of Kodak's digital camera, says that "networked information appliances are what matter now—the Net changes our world totally." The key becomes "designing the experience, not just the object," he says.

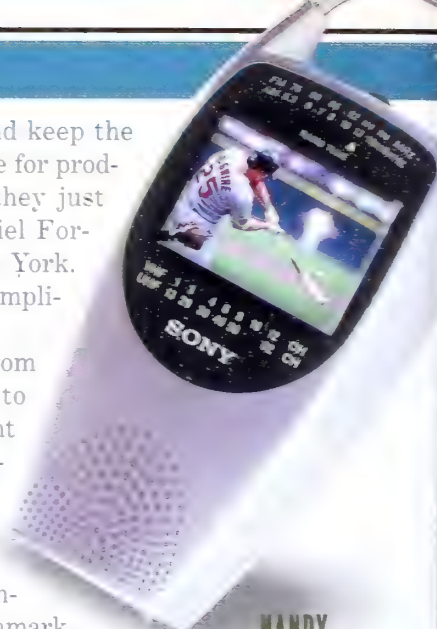
EASY SHOT

An LCD screen
brightens up
Kodak's D6200
Sony DCR-D10



SPEED DEMON

The Skycap
Smartboard
Helmet
this year's
award-winning
device



HANDY

The antenna of the
Watchman Color F1
fits inside the strap

WINNERS FOR 1998...

Here are many of the design firms
and corporations that had products winning
Industrial Design Excellence Awards:

DESIGN FIRMS	AWARDS			
	GOLD	SILVER	BRONZE	TOTAL
IDEO	2	1	3	6
FITCH	2	1	2	5
FROGDISEIGN	1	0	4	5
HERBST LAZAR BELL	0	1	4	5
ZIBA DESIGN	2	1	2	5
PENTAGRAM	1	0	3	4
ALTITUDE	1	2	1	4
ANDERSON	1	1	1	3
HAUSER	1	1	1	3
ALCHEMY	0	0	2	2
DESIGN EDGE	1	1	0	2
GINGKO DESIGN	0	0	2	2
LUNAR DESIGN	0	1	1	2
METAPHASE	0	2	0	2
ROCKWELL GROUP	1	1	0	2
STUART KARTEN DESIGN	0	2	0	2

CORPORATIONS

BLACK & DECKER	1	2	2	5
SYMBOL TECHNOLOGIES	1	3	0	4
BOMBARDIER	1	1	0	2
CHRYSLER	1	0	1	2
DIGITAL EQUIP.	1	1	0	2
FRITZ HANSEN	1	0	1	2
FUJITSU	1	0	1	2
IBM	0	2	0	2
JOHNSON & JOHNSON	0	0	2	2
MOTOROLA	1	0	1	2
PHILIPS	0	1	1	2
RUBBERMAID	0	1	1	2
SAMSUNG	1	0	1	2
SONY	0	1	1	2
VOLKSWAGEN	2	0	0	2

Sohrab Vossoughi, head of ZIBA Design, which took five awards, talks about "appropriate innovation." ZIBA's Visioneering

AND OVER THE PAST 5 YEARS

It takes something special to win year after year. Here are some of the best:

DESIGN FIRMS	1997	1998	TOTAL
EO	27	6	33
BA DESIGN	18	5	23
TCH	15	5	20
OGDESIGN	9	5	14
NAR DESIGN	9	2	11
TITUDE	7	4	11
SIGN CONTINUUM	10	0	10
NTAGRAM	6	4	10
USER	6	3	9
RBST LAZAR BELL	3	5	8
PLPH APPELBAUM ASSO.	6	1	7
SIGN EDGE	5	2	7
NTRY DREYFUSS ASSO.	6	0	6
N DESIGN	5	1	6
ORDICK GROUP	5	0	5
SIGN CENTRAL	5	*	5
ETAPHASE	3	2	5

*: ineligible to enter.

CORPORATIONS

ACK & DECKER	8	5	13
PLE	10	0	10
CROSOFT	9	1	10
CR	8	1	9
RYSLER	6	2	8
UBBERMAID	6	2	8
MBOL TECHNOLOGIES	4	4	8
OMSON	7	1	8
MSUNG	5	2	7
EELCASE	7	0	7
WLETT-PACKARD	5	1	6
L/HARMAN	4	2	6
ILIPS	4	2	6
DIGITAL EQUIP.	3	2	5
HERMAN MILLER	5	0	5
IBM	3	2	5
MOTOROLA	3	2	5

DATA: INDUSTRIAL DESIGNERS SOCIETY OF AMERICA

Research methodology for Fujitsu Ltd. showed that people don't want all the features in computers. They want to Net-surf and create content by making Web pages or sending E-mail. People also like to be able to carry devices around the house, as they do with cell phones.

The shift from working in an office to working at home reinforces the trend toward consumer-type products. SOHO—small office/home office—is the only business category showing fast growth. Hewlett-Packard Co.'s gold award for its simple-to-use, all-in-one home computer appliance (fax, copier, scanner, and color printer), designed with help from Hauser Inc., shows that high-tech companies and West Coast design firms can make the transition. Ditto for Apple—its new iMac home computer is a visual delight.

One factor favoring the transition from office equipment to consumer appliances is the huge number of independent firms that create good design at low prices. They won many prizes this year. Mark Steiner of Steiner Design reinvented the Rivet Tool, Scott Hardy and Woody Nash of N.E.O.S. re-created the lowly galosh as a cool boot, and Roger Ball of Canadian-based Paradox Design came up with the first helmet just for snowboarders.

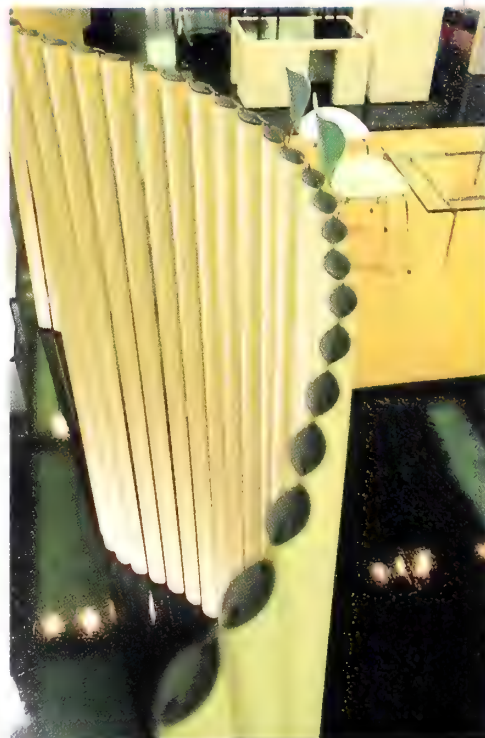
Thirteen judges examined 1,031 entries this year, of which 126 won awards. The judges handed out 33 golds, 34 silvers, and 59 bronzes. In the following pages, BUSINESS WEEK looks in depth at the very best in a remarkable year for design.

By Bruce Nussbaum in New York

(Visit www.idsa.org for a full description of all the winners.)

NOW THAT'S A MOBILE PHONE

The handset of the Cliphone 6300, the world's smallest cordless, hooks onto a belt or lapel



DIVIDE AND CONQUER

The Viper, a room divider from Denmark, sets up without tools



Things we've noticed about Americans:

Generally speaking, the tougher the better.

Gator wrestling
Orlando, Florida.

CASE IN POINT:

The durable
Chevy Malibu



- 6 year/100,000 mile warranty against body corrosion
- Rigid body structure
- Stainless steel exhaust
- All exterior body panels are two side galvanized steel
- Passlock theft deterrent system
- Have a nice trip
- 1 800 950 2438
- www.chevrolet.com/malibu
- \$16,195*

Malibu.

The Car You Knew America Could Build.  Genuine Chevrolet

*Whichever comes first. See your dealer for terms of this limited warranty. †1998 MSRP includes dealer prep and destination charge. Price excludes paint and options. Malibu is a registered trademark and Chevy is a trademark of the GM Corp. ©1997 GM Corp. Buckle up, America! ®

Is it a Net VCR, a Net Walkman, or what? The new 3½-ounce Audible MobilePlayer breaks the mold. In the new world of Net appliances, this portable player cuts the umbilical cord that binds people to their personal computers, freeing them to download audiobooks, language instruction, financial news, or National Public Radio's "Car Talk" and take them wherever they go—the train, the car, the bike, the beach. Not only does the Audi-

Player download two hours' worth of edutainment in 12 minutes with a modem) from the Audible.com Web site, it can also be plugged into corporate intranet sites. People on the road can catch up on train lectures, missed conferences, upcoming product launches, or the wise sayings of a company chairman. Audio content can even be automatically downloaded overnight. Wayne (N.J.) startup Audible turned to San Francisco design house IDEO for help in creating a physical form for the new concept. IDEO wanted to differentiate it from similar portable CD players, cassette players, and radios. For inspiration for this quintessentially aural product, IDEO turned, naturally, to the ear. In the center of a spiral is the all-important play button, with fast-forward, rewind, and stop buttons surrounding it. But because this is a digital product connecting with the Internet, there is one extra button not

THE SOUNDS OF THE NET GET PORTABLE

CONSUMER PRODUCTS

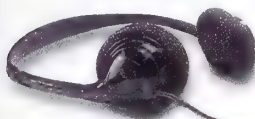
GOLD

Audible MobilePlayer
Designer: IDEO Product Development

found on VCRs or Walkmans: a bookmark.

The Audible—gray with blue translucent buttons—seems at home in the office, unlike many razzle-dazzle consumer-electronics products. To the jurors, the device itself didn't immediately shout "Next Big Thing." They had to work at understanding what it does. Net appliances may need to be far more intuitive to use in order to fulfill their potential. But the Audible MobilePlayer is unquestionably on the frontier. It costs \$199 for the system, which includes the Player, headphones, a Palm Pilot-like docking slot that plugs into a computer serial port, and software. The Audible connects to a car via a cassette adapter or through an FM station. Audibooks cost about \$6.99 to download. This is something really new.

*By Bruce Nussbaum
in New York*





The world's best-selling servers.



ENTERPRISE SERIES

PERFORMANCE 5500 SERVER

STARTING AT \$16,080*



ENTERPRISE SERIES

PERFORMANCE 6500 SERVER

STARTING AT \$13,807*



ENTERPRISE SERIES

PERFORMANCE 5500 SERVER

STARTING AT \$7,386

Thousands of businesses trust their mission-critical data to SAP. Who does SAP trust?

Over half of SAP's[™] R/3[™] installations running Windows NT[®] run on Compaq servers. That's twice the number of installations of any other Windows NT-based hardware provider. And no surprise to us. Because SAP develops and tests their software on Compaq platforms—a partnership designed to assure you maximum performance, reliability and easy implementation. Industry-standard platforms bundled with SAP solutions are one way we make sure that the best ideas always reach you. To learn more, visit our website or call for a reseller near you.

1-800-319-7778 www.compaq.com/solutions

© 1998 Compaq Computer Corporation. SAP and R/3 are trademarks of SAP AG. Windows NT is a registered trademark of Microsoft Corporation. Estimated selling prices on select models. Reseller prices may vary. Offer valid U.S. only. ProLiant is a registered trademark of Compaq Computer Corporation.

The Compaq logo is displayed in white, italicized, sans-serif capital letters within a red rectangular box.

CELL PHONE MEETS LAPTOP

DESIGN EXPLORATION
GOLD

MoCCA

Designers:
Fitch; Digital
Equipment; and
Carnegie Mellon

Sometimes, great designs spring from humble beginnings. Digital Equipment Corp.'s Mobile Computing & Communication Appliance (MoCCA), for instance, started out as a tool for computer-repair workers, who needed a hands-free way to accept wiring diagrams and pointers from colleagues while up to their elbows in a computer cabinet.

It developed into a concept that is voice-based, wearable, and ultimately "producible" three to five years from now. DEC and its design partner, Fitch Inc., came up with a sleek concept that heralds the future fusion of the laptop computer, cellular phone, and handheld personal organizer. Says juror Peter Trussler, director of the corporate design group at Northern Telecom Ltd.: "It reflected where we think telecommunications and information is going."

As a "concept" winner, MoCCA relies on technologies that are still in the lab, such as quarter-inch translucent screens, wireless videoconferencing, and an operating system that runs entirely on spoken commands. The design team sweated over how to make a 4-in.-by-4-in. computer that people would want to pick up and use right away. The key was an ergonomically appealing red handle, which lets people unfold the two 3-in.-by-3-in. screens like butterfly wings or pages of a book. The handle also props up MoCCA like a picture frame on the desktop, and it houses a speaker and some serious electronics.

MoCCA could display different data on the two screens—a report or Web browser on one, an address book or calendar on the other. Tilting MoCCA would scroll the data up or down, and shaking it like an Etch A Sketch would clear the screen. When it is worn with a neck strap, a single screen pivots up to be viewed. Guesstimated price? \$700.

By Paul C. Judge in Boston



SEE ALL THE WAYS IT PAYS TO GET METLIFE FOR BUSINESS.

MetLife Employee Benefits and Investment Products are helping millions of Americans become financially secure.

- Life
- Dental
- Disability
- Long-Term Care
- Auto & Homeowners Insurance
- Hyatt Legal Plans[†]
- Non-Qualified Executive Benefits
- Defined Contribution Programs/401(k)
- Defined Benefit Plans
- Guaranteed & Non-Guaranteed Investment Products



75 years of institutional investing. \$330 billion in assets under management.**



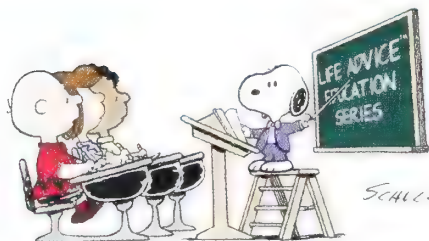
Plans for every business.
Even small businesses.

America's
fastest-
growing
major
401(k)
provider.*



The source to
support diverse
employee needs.

Instant online
information for
you and your
employees.



Our Life Advice™ education series helps
employees make sense of it all.

Contact your broker, consultant, MetLife
account representative, or call toll-free:

1 877-MET-BtoB
(1 877-638-2862)

MetLife
www.metlife.com/business

Annual Design Awards

No automobile in recent memory has stirred the public's fancy in the same way as Volkswagen's New Beetle. Cute as a Bug and tough as nails, the Beetle is drawing raves usually reserved for exotic sports cars or superluxury sedans. Indeed, no product this year epitomizes the nostalgia boom in product design more than the reborn Beetle. It has all the hallmarks: It brings back great memories and looks familiar, yet it packs new technology under the hood and is simple and worry-free to operate.

The new Beetle, says VW management board member Jens Neumann, is "optimism on wheels." Like the original Bug, the new version's half-moon silhouette stands out in a market flooded with look-alike models. Its rounded fenders and over-size oval headlights resemble a happy face in a sea of snub-nosed competitors. "Its shape makes you feel good by just looking at it," says IDEA juror Gerhard Steinle, president of Prisma Design International. Inside, the Bug's circular speedometer, streamlined instrument panel, and whimsical bud vase provide a pleasing alternative to the blandly

functional interiors of other small cars.

But the Bug delivers more than looks. It comes equipped with both front and side airbags, plus extra structural beams in its front end and doors. The result: The 1998 Beetle is the safest small car tested by the Insurance Institute for Highway Safety.

And unlike its venerable predecessor, the revamped Beetle offers loads of headroom and legroom in the front seats. The backseats, by contrast, are fit only for small children and con tortionists. And at a base price of \$15,700, the Bug comes with air conditioning, a six-speaker stereo, and an antitheft system. It may be compact, but it's no spartan.

Volkswagen has bet \$560 million on the new Bug. It will never match the original in U.S. sales, which peaked at 423,000 cars in 1968. The original Beetle dropped out of the U.S. market in the late 1970s. But VW should easily sell out the 50,000 Beetles allotted for the U.S. market in 1998. After a 20-year hiatus, the Beetle is back. That's comforting.

*By Bill Vlasek
in Detroit*

BUG-EYED
OVER THE
NEW BEETLE

TRANSPORTATION

GOLD

New Beetle

Designer: Volkswagen
of America



(close call)

Before you call, check the chart! You could be paying up to 99¢ in hidden charges on each call.



Introducing the
AT&T One RateSM Calling Card Plan.
One low rate. No hidden charges.

	AT&T One Rate Calling Card Plan	MCI One	Sprint Sense	Premiere WORLDLINK
Service Charge per call	0¢	99¢	30¢	25¢
Cost per minute	.23¢	.40¢	.30¢	.23¢

Plans in effect as of 8/1/98

AT&T just made calling card calls simple with the AT&T One RateSM Calling Card Plan. You get one low rate a minute anytime, anywhere in the U.S. on all your long distance AT&T Calling Card calls when you make the call yourself by dialing 1 800 CALL ATT. No gimmicks. No hidden charges. Just a \$1.00 monthly fee. Call to sign up and find out how you can start saving now.

Call 1 800 878-3288

It's all within your reach.



AT&T

A CLEAN, UNCLUTTERED WINE STORE



ENVIRONMENTAL DESIGNS
GOLD

Best Cellars

Designer:
Rockwell Group

You're late for a dinner party. You dash to the corner shop—and face a dizzying array: merlots, cabernets, chardonnays, and chablis. Wines from France, Spain, Italy, and Chile. Bottles from \$6 to \$60. What to do?

Best Cellars, on New York's Upper East Side, has a solution. The store stocks only 100 or so wines, all under \$10, organized by eight categories of taste—from “fresh” to “sweet”—rather than by type of grape or country of origin. The design of the 800-square-foot space is clean, uncluttered, and simple. The light American Sycamore paneling, burgundy walls, and backlit cylindrical storage make browsing a delight. Concise and helpful descriptions of the wines are posted above the bottles.

Winner of the IDEA gold prize for retail merchandising in the “environments” category, the wineshop was designed by New York's Rockwell Group, known for its design of restaurants Nobu, Vong, and the Planet Hollywood chain. Best Cellars' look is emblematic of the top entrants in this category. The best-designed spaces and places are like well-designed products: They are easy to use or navigate, convey information effectively, and are visually arresting.

Ralph Appelbaum Associates' design of the Newseum in Arlington, Va., another gold winner, does all that with graphics and interactive displays. K J McNitt Construction Co.'s new office building in Oklahoma City shows potential clients just what the company's business is all about—through the creative use of concrete panels, special joints, and braces. What distinguishes these winners, says IDEA juror Debra Lehman-Smith, partner at the Washington architecture and design firm Lehman/Smith/Wiseman Associates, is that they offer design solutions that tell customers, museum-goers, and clients what they need to know.

By Karen Pennar in New York

ENVIRONMENTAL DESIGNS
GOLD

The Newseum

Designer: Ralph
Appelbaum
Associates



*A visitor interacts
with a display at
the Newseum*



One product solves your time and money problems.

You can solve both the Euro and the Year 2000 problems with one solution: SAP R/3 business application software. Europe's introduction of a single, cross-border currency, the Euro, will have a strategic impact on businesses. Adding to the challenge, the Year 2000 problem requires date-change compliance to keep businesses running smoothly. The good news is that SAP R/3 has supported four-digit year code and multi-currencies since its inception. So, R/3 is ready to solve your time and money problems across applications, systems and interfaces – in time to make a difference. And the combined Euro/Year 2000 solution from SAP never stops working for you, no matter what your business or application.

Visit us at www.sap.com or call us at 1-800-283-1SAP for more information.



Annual Design Awards

Danish designers, long famous for their contemporary furniture, have come up with a prizewinner that's practically invisible. In fact, that's the whole point. The digital hearing aid, SENSO CIC, weighs less than the ordinary butterfly—about one gram—and nestles discreetly in the ear canal.

The challenge facing the design team at Widex, in Vaerloese, Denmark, had less to do with aesthetics than logistics. Their goal was to jam a computer that can handle 50 million calculations per second into a tiny package and create a pliable casing for it so that each machine could be molded to the shape of the user's ear.

THE SOUND IS REALLY OUTASIGHT

MEDICAL & SCIENTIFIC
PRODUCTS

GOLD

SENSO CIC Hearing Aid

Designer: Widex



But the fit couldn't be too snug: Users had to be able to change the tiny battery once a week.

Back in 1990, when Widex, a global leader in hearing aids, first began working on SENSO CIC, the microprocessors then available were still far too big for the inner-ear computer. But betting on the so-called Moore's Law, which postulates a doubling of

chip capacity every 18 months, "they started designing it five years before the technology was ready," says Jens Bernsen, managing director of the Danish Design Center in Copenhagen.

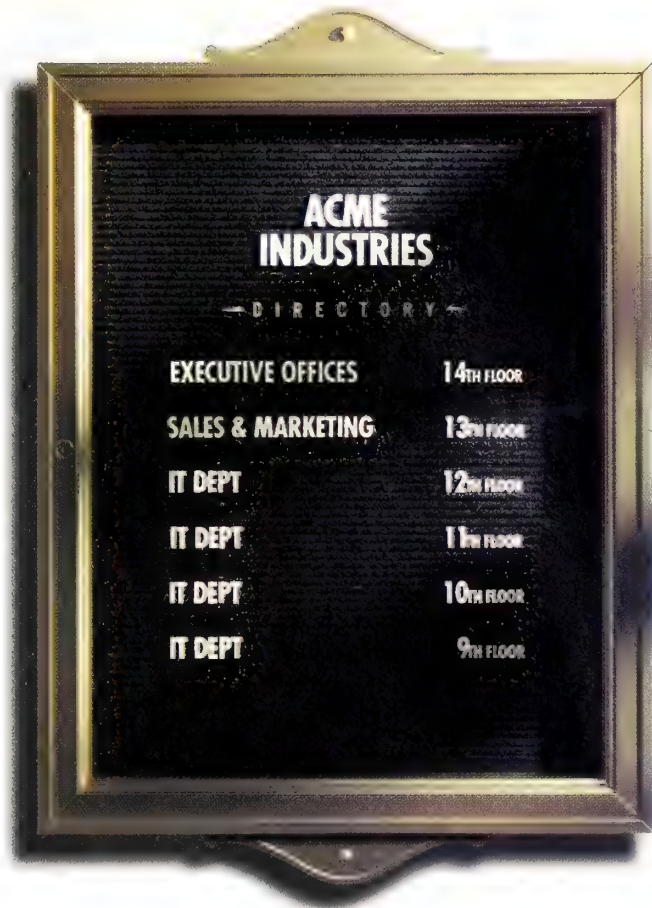
Their starting point is a skin-malleable plastic. This enables technicians to make a mold of the shape of the patient's ear, then form the hearing aid to fit it. The resulting casing houses a loudspeaker and amplifier, both of which can be withdrawn through the tiny battery opening for servicing. To remove the hearing aid, the user pulls on a little string. By the time Moore's Law had worked its magic, Widex had a casing ready for the giant-size computer chip.

The result is a hearing aid that can be programmed for the specific problems of each customer. It has features that deal with the most difficult of problems for the hard of hearing: speech enhancement in noisy environments, clarity of sound, and reductions in wind noise. Price: \$4,000 to \$6,000, about twice an analog aid.

Widex isn't the only Danish company designing for visibility. Pharmaceutical company Novo Nordisk sells an insulin syringe disguised as a ballpoint pen. There are times when the appropriate design is the one that cannot be seen. The Danes get it.

By Stephen Baker in Portland





THINGS THEY NEVER TELL YOU WHEN YOU BUY ENTERPRISE SOFTWARE.

It will grow your business in more ways than one.

Get ready to staff up. Most enterprise software is so complex, even small business changes require big help from the IT department. Say you open a new office. Got to call in the programmers. Move into a new market, call in the programmers. Acquire another company, call in the programmers. You even need programmers just to rearrange your users' screens.

Thankfully, there's one way to avoid being overrun by technology. J.D. Edwards enterprise

software. The solution that's so much simpler, business managers can very often make changes all by themselves. Only J.D. Edwards neatly separates your business applications from your technology. So adapting to change is easier. Modifications are easier. Your IT people get back to doing what they do best. And you can use those extra offices for staff that will really grow your business. That's how enterprise software ought to be. To find out more, call 1-800-727-5333 or visit www.jdedwards.com.

JDEdwards®
Enterprise Software

The stress of a high-risk pregnancy can be extraordinary: A woman having complications from diabetes or from carrying multiple fetuses can spend excruciating weeks bedridden or in the hospital. And sometimes the bulky high-tech equipment designed to keep tabs on a mother's and baby's health only adds to the anxiety.

One of this year's gold winners in the medical category, however, resembles the nonthreatening, ubiquitous infant

monitors used in millions of homes. But this in-home device is for babies as yet unborn. Its soft, pillowy casing and small powder-blue buttons hide a fully functional palm-size computer charged with a life-or-death mission: collecting crucial medical information, such as fetal heartbeat and

maternal blood pressure, from at-risk moms and transmitting it to a health-care provider in time to stave off tragedy.

The Continuum of Care fetal monitor base station was designed for Corometrics Medical Systems Inc. by Anderson Design of Plainville, Conn. The device awaits regulatory approval. A small ultrasound sensor belted around the woman's stomach picks up the fetal heartbeat and sends data to the base unit from up to 150 feet away. The base is hooked up to a phone line and periodically transmits the data.

Some women might even be able to take the setup to work. Wherever the mom-to-be is, the Continuum of Care may cut down on panicky trips and calls to the doctor's office to see if discomforts are a sign of bigger trouble. That, in conjunction with a reduction in premature births, could deeply cut medical costs.

The Continuum is easy to use. There are only four color-coded buttons on the device's face and an LCD display that offers menus for different tasks as well as audio cues, telling the woman to take medication, for example. Light colors allow the unit to fade into the background like a digital clock on the bedstand, attracting only the mom's attention—and getting a problem pregnancy closer to a good outcome.

*By Joan Hamilton in
San Francisco*

EAVESDROPPING ON THE BABY-TO-BE

MEDICAL & SCIENTIFIC
PRODUCTS

G O L D

Continuum of Care

Designers:
Anderson Design,
Corometrics
Medical



JEEP... THE MOST AWARD-WINNING BRAND OF 4x4s ON EARTH.

That's not surprising considering that Jeep® vehicles have been at the forefront of 4x4 technology, innovation, and design for over 50 years. All you have to do is check the myriad of four-wheel drive and automotive enthusiast magazines out there—we've collected numerous awards and endorsements from almost all of them.



All those awards and endorsements are the result of our constant mission to improve and perfect 4x4 technology. Whether it's the legendary Jeep Wrangler, the rugged Jeep Cherokee, or the ultimate in 4x4s, Jeep Grand Cherokee, they all share in that classic Jeep capability and award-winning tradition.

Speaking of winning, we're proud to announce that Jeep

Grand Cherokee 5.9 Limited, the fastest sport utility vehicle in the world*, has been named the 1998 4x4 of the Year by *Petersen's 4-Wheel & Off-Road* magazine. But then, what would you expect from the most award-winning brand of 4x4s on earth? For more information, call 1-800-925-JEEP or check out our Web site at www.jeep.com



Jeep

T H E R E ' S O N L Y O N E

*Based on 0-60 acceleration. Always use seat belts. Remember, a backseat is the safest place for children. Jeep is a registered trademark of Chrysler Corporation.



“OUR INTERNET ACCESS SERVICE NEEDED MORE CAPACITY. AND WE NEEDED IT FAST.”

At the GTE WHOLESALE SERVICES DIVISION, our goal is to provide innovative communications solutions to businesses within the communications industry. Whether it involves network management, network capacity, or resale services, we have an intimate understanding of the problems these companies face. And the experience and expertise to solve them. We begin by establishing a relationship with customers based on open communication and understanding of their business, which allows us to focus squarely on their needs. Then we work for creative ways to fill those needs – even if that means changing the way we do business.

Some time ago, an ISP “backbone” provider faced a major dilemma: Customer demand for Internet capacity had outstripped their ability to provide it. They needed to build more capacity, and quickly. That’s when they called in GTE Network Services Wholesale Division.



Partnering closely with the ISP, we introduced them to a new networking configuration called CyberPOP®. Instead of the traditional method of routing ISDN lines through multiple points, this system employs a trunkside connection that permits the equipment to be located in existing GTE switching centers, which in turn allows capacity to be added much more rapidly. Over the next two years, in fact, the rate at which we installed circuitry for this provider went from 1,000 ports a month to more than twelve times that. This rate far exceeded their expectations, enabling them to increase their business and coverage opportunities very rapidly.

If you're having a problem getting one of your communications ideas to work, call the Wholesale Services Division of GTE at 1-888-483-9594, or contact us on the Internet at www.gte.com/Wmks. We're quick. We're cost-competitive. And best of all, we're flexible. You can count on us to deliver solutions that will ensure your success.



PEOPLE
MOVING
IDEAS

A NEW LOOK FOR OLD FRIENDS



The shift to consumer products and away from office computers in this year's Industrial Design Excellence Awards marks a significant trend. Many of the winning products are revivals and reinventions of familiar things. Here are four.

Sunbeam Corp.'s Slow Cooker is a remake of the old Crock-Pot, that heavy kitchen warhorse that has fed so many with stews and chilis. Updated with a sleeker look, lighter feel, improved heating element, and a self-stirring paddle that keeps food from burning and sticking to the sides, the Slow Cooker does what its parent did—cook a lot of food while you're away at work. And it doesn't take an hour to clean, as the old one did. "A fine example of reviving a traditional design through the clever use of new materials and

processes," says IDEA juror Alvaro Correa, director of industrial design for Whirlpool. Price? Four-quart size, \$35. Six-quart, \$40.

Black & Decker Corp.'s Kitchentools Line harks back to the days when cooking appliances had on and off buttons and nothing else. They were simple to use and clean. Then came electronics and 14 buttons on the food processor, 12 parts, and enough choices to choke on. Creating an upscale brand of gourmet cooking appliances, Black & Decker has made each one intuitively easy to use, with oversize buttons and a minimum of parts. No instruction manual needed. Cleaning is easy and fast. A powerful motor drives each Kitchentool. Prices for some of the products: \$69.99 for the hand mixer, \$159.99 for the coffeemaker, \$139.99 for the blender.

Another product reinvention is Prestone Products Corp.'s Bullet Wax Applicator, which can cut car-waxing time in half and spare you from carpal tunnel syndrome. A small pump dispenses the wax onto an oversize applicator pad that has a special

ergonomic design. Price: \$12.99.

Remember the original car windshield sunshades—boring pieces of cardboard and Mylar? With the Axis Sunshades, designed by Stuart Karten Design for Axis Inc., drivers can choose from a variety of colors and patterns. Today's shades are made of vinyl with a UV-protection coating and Mylar. Express yourself for \$19.99.

By Bruce Nussbaum in New York



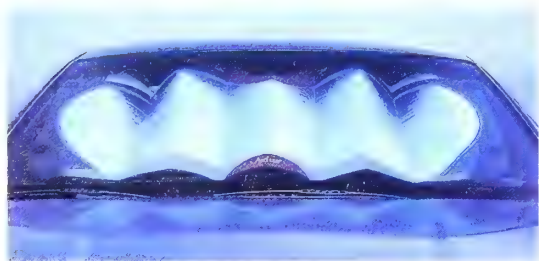
CONSUMER PRODUCTS
GOLD

Slow Cooker
Designer: Fitch

PACKAGING & GRAPHICS
GOLD

Bullet Wax
Designer: Group Four Design

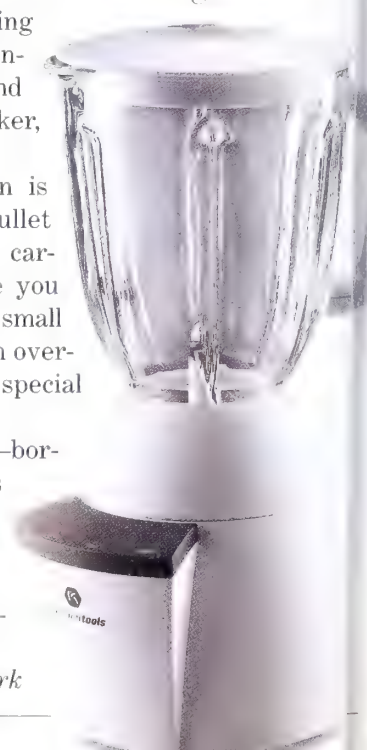
CONSUMER PRODUCTS
SILVER



Axis Sunshades
Designer: Stuart Karten Design

CONSUMER PRODUCTS
GOLD

Kitchentools Line
Designers: Black & Decker. ZIBA Design



Limited Time Offer



Get Windows 98 Upgrade*

Now there's a new way to carry your most vital information with you anywhere—with Palm PCs powered by the **Microsoft® Windows® CE** operating system. Featuring a familiar interface, all designed for a

Put Windows in the palm of your hand— and get your hands on Windows 98 Upgrade!

small, lightweight package that lets you keep connected when you're on the go.

You'll like the way Palm PCs keep you effortlessly up-to-date. Because of **Microsoft ActiveSync™** technology, your Palm PC files stay continuously and automatically in synch with your desktop PC. Just connect your Palm PC to your computer, and it does the rest, updating your contacts, calendar, tasks, e-mail and notes. And entering data is a cinch, whether you handwrite notes, or use the voice recorder or on-screen keyboard.

Whether your Windows-based world includes a network, a desktop PC, or a laptop, you'll want the palm-sized unit that best connects with it all. Look for the logo that says "Powered by Microsoft Windows CE" to ensure secure access to every Windows-based device.

When you purchase a Palm PC powered by Windows CE between May 1 and June 30, 1998, you are eligible to receive a coupon worth approximately \$109 to get Windows 98 Upgrade when available.* Please see your local reseller for details. For more information about the companies that provide Palm PCs powered by Microsoft Windows CE, go to www.microsoft.com/windowsce/palmpc/.

Powered by
Microsoft
Windows CE

Microsoft

www.microsoft.com/windowsce/palmpc/ Where do you want to go today?

Windows 98 Upgrade offers a maximum value of \$109. Offer is available only for the purchase of a new Palm PC powered by the Windows CE 2.0 operating system between May 1 and June 30, 1998. Upgrades do not apply. To receive your copy of Windows 98 Upgrade, pick up the promotion mail-in coupon at your local reseller or print it off of our Web site at www.microsoft.com/windowsce/palmpc/. Please follow the mailing and proof of purchase instructions. Please allow 6 to 8 weeks for product delivery once available. © 1998 Microsoft Corporation. All rights reserved. Microsoft, ActiveSync, Windows, the Windows logo, and the Windows CE logo are either registered trademarks or trademarks of Microsoft Corporation in the United States and/or other countries.

Annual Design Awards

There are more than 100 million land mines buried in 70 countries, including Bosnia, Mozambique, Afghanistan, and Cambodia. Every year, 24,000 people, almost all civilians, are mutilated by mines; 2,600 are children. The portable MIMID, or Miniature Mine Detector, from Austria's Schiebel Elektronische Gerate, can help put an end to much of that suffering.

Schiebel, one of the world's leading makers of mine-detecting equipment, wanted to create the first lightweight device that could be carried in a backpack or on a belt into remote areas and easily used by soldiers and civilians alike.

That meant putting complex, sensitive electronic components into a compact, rugged, waterproof casing that was intuitively easy to understand and use. An Asian farmer had to be able to use it as well as a Green Beret.

Schiebel turned to Gerhard Heufler of Heufler Design in Graz, Austria, for help. His design was pure symmetry. Taking inspiration from the Swiss army knife, Heufler designed a foldable mine detector that flips open and telescopes out like a camera tripod in less than 30 seconds. By using carbon fiber, titanium, and reinforced plastic, Heufler was able to get the weight down to three pounds.

The controls for on and off, acoustics, and sensitivity are obvious, large enough, and easy to read. So is the light-emitting diode-bar optical indicator that shows the strength of the detection signal. The portable mine detector is durable and can even operate under 100 feet of water.



A LIGHT AND
EASY LAND
MINE FINDER

BUSINESS & INDUSTRIAL
EQUIPMENT

SILVER

MIMID

Designer: Heufler Design

The MIMID was developed in cooperation with the U.S. Army Humanitarian Demining Division of the Night Vision Lab at Fort Belvoir. Schiebel already manufactures the standard mine detector used by most armies around the world. Israel, Jordan, the Netherlands, and Britain have shown interest in buying the new portable model.

But the MIMID, priced at \$3,950, isn't affordable to Cambodian peasants searching for a safe path through the minefields to get to their rice paddies. That will require further humanitarian action.

*By Bruce Nussbaumer
in New York*

MEDICAL & SCIENTIFIC
PRODUCTS

SILVER

DynaMyte Augmentative Communicator

*Designers: Sentient Systems,
Daedalus Design, and LSB Technology*

TOUCH AND TALK

The shift from general-use computers to single-purpose electronic devices, highlighted by this year's IDEA competition, is perhaps best amplified by the DynaMyte Augmentative Communicator. The silver-medal winner is a compact, portable, touch-screen communicator for people with speech and language-learning disabilities, such as kids with cerebral palsy or Down's syndrome and older people who have suffered strokes. The software, carried on two removable memory cards, allows users to select words, letters,



icons, or even preprogrammed phrases. They touch the screen, and a clear voice speaks. Experienced people can "speak" this way at 30 words a minute. A pair of internal speakers reproduces the highly synthesized voices, which can be customized.

For people who have difficulty grasping objects in their hands, Daedalus Design in Pittsburgh attaches a series of straps, handles, and legs to the DynaMyte so it can be carried, worn, or lifted onto a table. Rubberized housing enhances the grip.

Sentient Systems, which makes the DynaMyte, wanted Daedalus to design the product so it would look cool to children but effective and professional to adults. Price for the three-pound communicator, which measures 8 in. by 7 in. by 2 in.: about \$6,500.

*By Bruce Nussbaum
in New York*

1998 IDEA WINNERS

OFFICE & INDUSTRIAL EQUIPMENT

Flatscreen Monitor, Design Austin, Tex., for STB Systems, Austin, Tex.
Image Computer, Sun Microsystems, Menlo Park, Calif., and Monty/Pfeifer, San Francisco
Barcode Scanner, Symbol Technologies, Holtville, N.Y., and Al-Somerville, Mass.
Link 30, Steiner Design Associates, Cos Cob, Conn.; Phoenix Engineering, Trumbull, Conn.; and Thart Industrial, Shelton, Conn.
Professional J-Fill Product, Palo Alto, Calif., for SC Johnson Professional, Sturtevant, Wis.
IR System, Norton, Worcester, Mass.
Computer Cables, Stuart

Karten Design, Marina del Rey, Calif., for Belkin Components, Compton, Calif.
HotShot Barcode Scanner, Symbol Technologies, Holtville, N.Y., and Altitude, Somerville, Mass.
Jazz Band, Moldex-Metric, Culver City, Calif.
MIMID, Heufler Design, Graz, Austria, for Schibel Elektronische Geräte, Vienna, Austria
ProScreen 4600 LCD Projector + Remote Control, Philips Design, Eindhoven, The Netherlands

BRONZE

Freestyle, frogdesign, Sunnyvale & San Francisco, Austin, Tex., New York, and Altensteig, Germany, for Assistive Technology Project, Chestnut Hill, Mass.
T5 Electrical Testers, Fluke, Everett, Wash.
LP730 Portable Projector, In Focus Systems, Wilsonville, Ore.

IntelliMouse® TrackBall, Microsoft, Redmond, Wash.
M-Smart, Herbst LaZar Bell, Chicago, for Motorola, Schaumburg, Ill.
Rack Server, NCR, W. Columbia, S.C. and San Diego; and Fiori Product Development, Snohomish, Wash.
LCD Monitors, Gingko Design, San Francisco, for Royal Information Electronics, Taipei, Taiwan
Swingline Millennium Electric Stapler, Gingko Design, San Francisco, and ACCO, Lincolnshire, Ill.
Equium, Pentagon Design, San Francisco, and Function Engineering, Palo Alto, Calif., for Toshiba, Irvine, Calif.
Xplore Genesys, 4D Design, Austin, Tex., for Xplore Technologies, Austin, Tex.

CONSUMER PRODUCTS

GOLD

Audible MobilePlayer, IDEO Product

Development, Palo Alto, Calif., for Audible, Wayne, N.J.
Kitchentools Line, Black & Decker, Shelton, Conn., and ZIBA Design, Portland, Ore.
TalkAbout Two-Way Radio, Motorola, Fort Lauderdale, Fla., and Schaumburg, Ill.
Music Gizmo, Klitsner Industrial Design, San Francisco, for Yes! Entertainment, Pleasanton, Calif.
Commuter Overshoes, N.E.O.S., Charlotte, Vt.; Opie Design, Boston, and Breitenbush Design, Portland, Ore.
Office Jet 500 Series, Hauser, Westlake Village, Calif., and Hewlett-Packard, San Diego
Sassy Toys, Pogue Design, Reston, Va.; JWP Design Studio, Deerfield, Ill.; and Dr. Jay Hirsch & Renee Hirsch, Glencoe, Ill.; for Sassy, Northbrook, Ill.
Slow Cooker, Fitch, Boston, for Sunbeam, Del Ray Beach, Fla.
t'Blade, frogdesign, Sunnyvale & San

AD RENAISSANCE

A New Enterprise for a New Era.

The advance of information technology is moving modern business out of the information age and into the knowledge era. As with previous fundamental shifts in the business world, there is no road map to follow. Recognizing this, The Registry, Renaissance Solutions, and The Hunter Group have pooled their complementary talents

and resources to create a new enterprise specifically designed to help companies compete in the 21st Century.

The new enterprise is
Renaissance Worldwide, Inc.

We Source Knowledge.

Our worldwide mission is to help corporations develop and effectively wield the strategies, solutions, and services that

will help them win in the knowledge era:

- The crafting of new business strategies to rapidly deliver new products and services.
- The knowledge-enabling core business processes.
- The creation of powerful enterprise management systems that support knowledge work.



1998: WORLDWIDE

access to over 5,000 consulting professionals with integrated business and technical expertise.

Strategy, Solutions, Services Synergy.

Renaissance Worldwide, a global player with 84 offices on four continents, is uniquely positioned as a partner of choice in integrated business technology services for the

21st Century. Our distinctive competencies provide a seamless approach to business, technology, and professional services:

Our *Strategy Group*, thought-leading pioneers of the Balanced Scorecard and knowledge-based processes; our *Solutions Group*, which brings deep business and technology expertise to our clients'

critical applications; and our *Professional Services Group*, the developers of America's premiere professional IT services company.

To learn more about how we can help your corporation make history, call **Renaissance Worldwide** at 1.800.591.7764 or, within Europe, +44.0.171.290.3700.



Annual Design Awards

Francisco, Austin, Tex., New York, and Altensteig, Germany, for Wuerthner Sport Technologie, Germany

SILVER

Axius Sunshades, Stuart Karten Design, Marina del Rey, Calif., for AxiusTM, Moorpark, Calif.
Kitchenools Food Processor, Black & Decker, Shelton, Conn., and ZIBA Design, Portland, Ore.
Icy Rider Toboggan, Rubbermaid, Wooster, Ohio
Info Pen, Symbol Technologies, Holtsville, N.Y.; Machineart, Hoboken, N.J.; and Design Edge, Austin, Tex.
Kennel-Aire Pet Home, Worrell Design, Eden Prairie, Minn., for Kennel-Aire, Minneapolis, Minn.
Prop 'n Carry Infant Carrier, Fisher-Price, East Aurora, N.Y.
ScumBuster, Anderson Design, Plainville, Conn., and Black & Decker, Shelton, Conn.
Skycap Snowboard Helmet, Paradox Design, Toronto, for Burton Snowboards, Burlington, Vt.
Watchman Color TV, Sony Electronics, Park Ridge, N.J.
Werner Penguin Step Ladder, Herbst LaZar Bell, Chicago, for Werner Ladder, Franklin Park, Ill.

BRONZE

16 Liter Water Cooler, Rubbermaid, Wooster, Ohio
3D ZoneMaster, frogdesign, Sunnyvale & San Francisco, Austin, Tex., New York, and Altensteig, Germany, for Technimedia Computer Systems, Garden Grove, Calif.
AM/FM Stereo Radio, Sony Electronics, Park Ridge, N.J.
Amuse & Cruise Activity Center, Brooks Stevens Design, Grafton, Wis., and Gerry Baby Products, Thornton, Colo.
Cliphone 6300, frogdesign, Sunnyvale & San Francisco, Austin, Tex., New York, and Altensteig, Germany, for Astralink Technology Pte Ltd., Singapore
Expresso Mio Microwave Coffeemaker, Black & Decker, Shelton, Conn.
Harmony Radio, Fitch, Boston, and Human Consumer Group, Northridge, Calif., for JBL Consumer Products, Woodbury, N.Y.
Simply Cinema ESC 550, Fitch, Boston, for JBL Consumer Products, Woodbury, N.Y.
Lapdog: The Portable Workplace, Shaun Jackson Design, Ann Arbor, Mich.
LeashLight, Altitude, Somerville, Mass., for Black & Decker, Shelton, Conn.
Neptune Laundry, Maytag Appliances, Newton, Iowa
Network Computer, frogdesign, Sunnyvale & San Francisco, Austin, Tex., New York, and Altensteig, Germany, for Oracle, Redwood Shores, Calif.
Power Pumper, Designhaus, Seattle, for Columbia-Inland, Oregon City, Ore.
Epsilon Piggyback Luggage, FM Design, London, and Samsonite, Oudenarde, Belgium

Simplicity Breast Pump, Design Integration, Hanover, Mass.; Design Innovations, Avon, Conn.; Jemco Associates, Malden, Mass.; Gearing International; and Modern Power Ltd.; for The First Years, Avon, Mass.
Speed Pac®, Shook Design, Palo Alto, Calif.

DESIGN EXPLORATION

GOLD

3-Dome, Samsung Electronics, Seoul, Korea
MoCCA, Fitch, Boston; Digital Equipment, Marlboro, Mass.; and Carnegie Mellon, Pittsburgh
Plymouth Pronto Spyder, Chrysler, Auburn Hills, Mich.
Visioneering, ZIBA Design, Portland, Ore., for Fujitsu Design Laboratory, Kawasaki, Japan

SILVER

Cyclone, Symbol Technologies, Holtsville, N.Y., and Altitude, Somerville, Mass.
Portable Workstation, Digital Equipment, Marlboro, Mass., and IDEO Product Development, Lexington, Mass.
Ergonomics & Design of High-Performance Delivery Systems, Metaphase Design Group, St. Louis, and Quaker Oats/Gatorade, Chicago
Lifeforms: Media Picnic, Fitch, Boston, for GE Plastics, Pittsfield, Mass.
Lottery Terminals Transaction & Service Alternatives, Metaphase Design Group, St. Louis, for GTECH, W. Greenwich, R.I.

BRONZE

A.Lure, Herbst LaZar Bell, Chicago
Double Phone, Samsung Electronics, Seoul, Korea
Ikebana, Velocity Group/Anderson Design, Farmington, Conn.
Organics Cordless Mixer, Alchemy, San Francisco
Promera Mobile Computer, EDRC at School of Design, Carnegie Mellon, Pittsburgh; and Francidesign, Pittsburgh, for Intel, Hillsboro, Ore.
Response Instrument Panel, Johnson Controls/Prince, Holland, Mich.
TeleTV Antenna, IDEO Product Development, Palo Alto, Calif.
Tiki, Thomson Consumer Electronics, Indianapolis
User Interface Strategy, ZIBA Design, Portland, for Fujitsu, Tokyo, Japan

ENVIRONMENTAL DESIGNS

GOLD

Best Cellars, Rockwell Group, New York, for Best Cellars, New York
KJ McNitt Headquarters, Elliott+Assoc. Architects, Oklahoma City, for KJ McNitt Construction, Oklahoma City
The Newseum, Ralph Appelbaum Associates, New York, and H. M. Brandon, New York, for The Freedom Forum Newseum, Arlington, Va.
Car Show Exhibit, Mauk Design, San

Francisco, for Volkswagen, Auburn Hills, Mich.

SILVER

Annual Design Review Exhibit, Rockwell Group, New York, for I.D. Magazine, New York
Offices, Jensen & Macy Architects, San Francisco, for Moto Development Group, San Francisco
New Hearth Showroom, Centerbrook Architects & Planners, Essex, Conn., for D'Elia Associates, New Haven

BRONZE

Achille Castiglioni: Design, The Museum of Modern Art, New York, and Steven Guamaccia, Montclair, N.J.
Forecast Exhibition, 2 x 4, New York, and Knoll, New York
Offices, Eight, San Francisco, for Pentagram Design, San Francisco
Swatch Timeship Store, Pentagram Design, San Francisco, Calif., for SMH (U.S.), Weehawken, N.J.

FURNITURE

GOLD

VicoDuo Chair, Vico Magistretti, Milano, Italy, for Fritz Hansen, Allerød, Denmark

SILVER

Luminette Privacy Sheers®, Hunter Douglas Window Fashions, Broomfield, Colo., and Upper Saddle River, N.J.

BRONZE

Carts, ZIBA Design, Portland, and Modo, Beaverton, Ore.
Modula, SieMatic, Bensalem, Pa.
Viper, Hans Sandgren Jakobsen, Bronshøj, Denmark, for Fritz Hansen, Allerød, Denmark

MEDICAL & SCIENTIFIC PRODUCTS

GOLD

Continuum of Care, Anderson Design, Plainville, Conn., for Corometrics Medical, Wallingford, Conn.
SENSO CIC Hearing Aid, Widex, Værløse, Denmark
Stifneck® Select™ Collar, Laerdal Medical, Wappinger Falls, N.Y., and IDEO Product Development, Lexington, Mass.

SILVER

APTAC, Arthur D. Little, Cambridge, Mass.
DynaMyte Augmentative Communicator, Sentient Systems, Pittsburgh; Daedalus Design, Pittsburgh; and LSB Technology, Clairton, Pa.
FirstPICC Central Catheter, Becton Dickinson, Sandy, Utah
Select Modular Patient Monitoring System, Hauser, Westlake Village, Calif., for Johnson & Johnson Medical, Tampa
Sequoia Ultrasound System, Lunar Design, Palo Alto, Calif., and Acuson, Mtn. View, Calif.

BRONZE

ACS & Centaur™, Chiron Diagnostics, Oberlin, Ohio, and Priority Design, Columbus, Ohio
EZCom, Herbst LaZar Bell, Chicago, for Grayhill, LaGrange, Ill.

Integris H5000 CardiacSystem, Philips Medical Systems, and Philips Design, Eindhoven, The Netherlands
PF Profiler, Redgroup, Minneapolis, and Medgraphics, Minneapolis, for Medical Graphics, St. Paul, Minn.
SoftGrip Pipette, Lunar Design, Palo Alto, Calif.; Alchemy, San Francisco, and Hamilton, Reno, Nev.

The Wand, Herbst LaZar Bell, Chicago, for Milestone Scientific, Livingston, N.J.
Virtual Binoculars, ION Design, Edgewater, N.J., for n-Vision, McLean, Va.

PACKAGING & GRAPHICS

GOLD

Salame Packaging, Pentagram Design, San Francisco, for Columbus Salame, Hayward, Calif.
Team Fusion and Fusion 2.0, Net Objects, Redwood City, Calif.
Bullet Wax, Group Four Design, Avon, Conn., for Prestone Products, Danbury, Conn.
Timecapsule, Nike Design, Portland, Ore., and SoMA, Portland, Ore., for Nike Equipment Design, Beaverton, Ore.

SILVER

1998 XVIII Winter Olympic Games Nagano Web Site, Studio Archetype, San Francisco, for IBM, Armonk, N.Y.
Computer Systems Packaging, IBM Research Triangle Park, N.C.

BRONZE

GUI for the Digital Science DC21 Zoom Camera, Eastman Kodak, Rochester, N.Y., and IDEO Product Development, San Francisco
Portfolio Assembler CD-ROM, IDEO Product Development, San Francisco
Steuben Shopping Bag, Matsumoto New York, for Steuben, New York
GUI for the Trima, Hauser, Westlake Village, Calif., and COBE BCT, Lakewood, Colo.

TRANSPORTATION

GOLD

Sea-Doo Challenger 1800, Bombardier, Valcourt, Canada, Grant, Fla., and Benton, Ill., for Bombardier Recreational Products, Montreal
New Beetle, Volkswagen of America, Simi Valley, Calif., and Volkswagen Wolfsburg, Germany

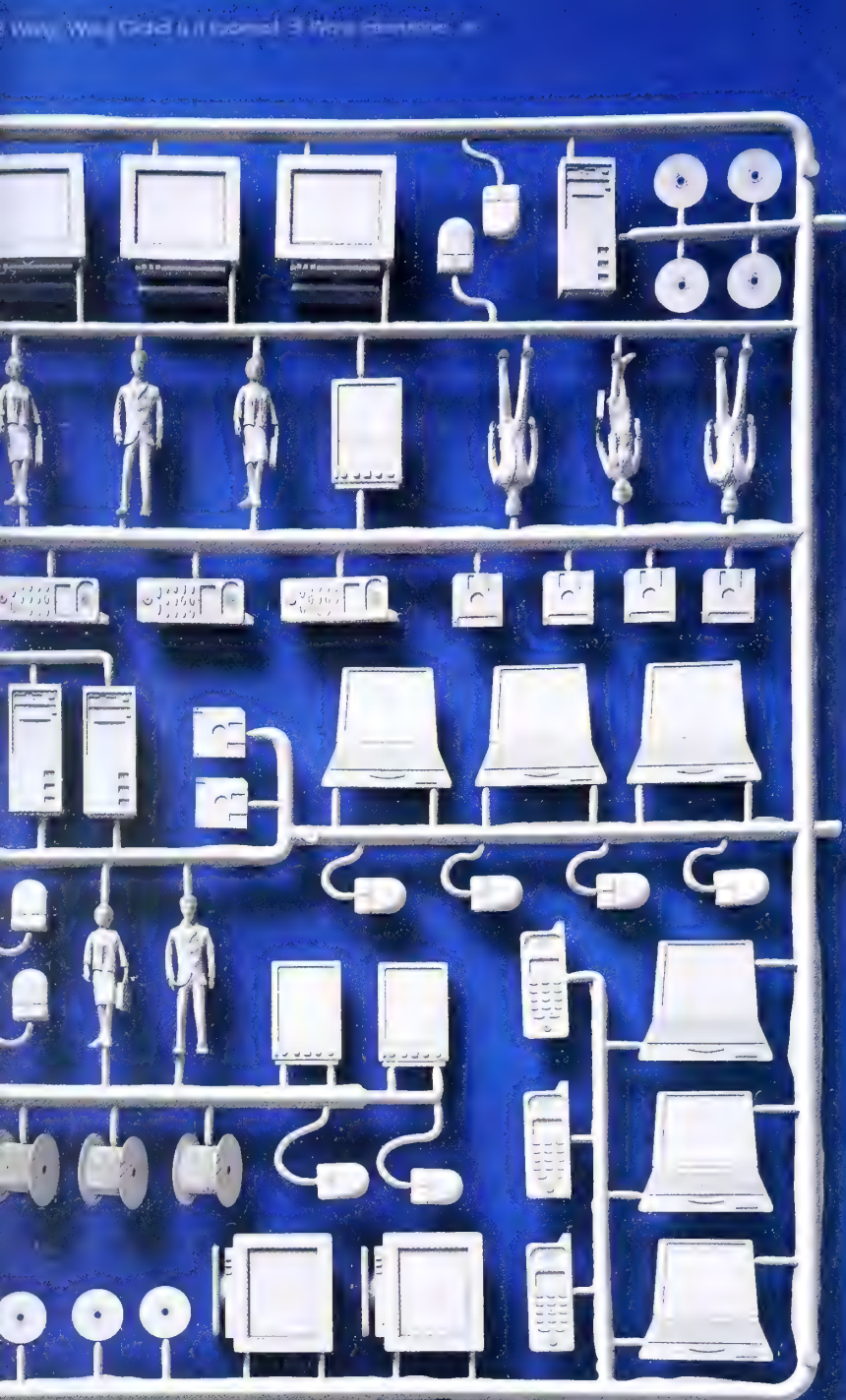
SILVER

Sea-Doo XP, Bombardier, Grant, Valcourt, Canada, for Bombardier Recreational Products, Montreal

BRONZE

1998 Concorde LX & LXi, Chrysler Auburn Hills, Mich.
Sportcoach, Coachmen Industries Middlebury, Ind.

For photos & descriptions of all winners, visit the IDEAS Gallery at www.ada.org



1200 desktops.

700 laptops.

The London office.

Maude from Accounting.

212 printers.

The internet.

Edwin from R&D.

The Hong Kong office.

Audrey from Finance.

The intranet.

The New York office.

88 servers.

Billy from Sales.

Ready?

Put them together.

Assembling an IT network for a worldwide company is a tremendous endeavor. Servicing it can be an even more colossal task. Precisely why you should call Wang Global, an over \$3 billion networked services and solutions provider. We will integrate your entire company's infrastructure; desktops, software, peripherals, into one remarkably seamless network. Then manage and upgrade the network as your company grows. And grow it will. 1-800-262-3696. www.wang.com

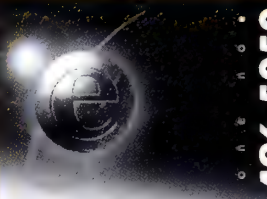
WANG
GLOBAL
Networked Technology Services

Industrial Design Directory

Don't settle for anything less than the best design... because your customers won't. Increase your sales by hooking up with the best in the business, the world over. For more information on these firms, log on to the Internet (www.businessweek.com/BizLink/ or www.idsa.org) or call 1-800-848-6708. Look under the May 25, 1998 issue. See the last page of this directory for details.



rk design, inc.
www.rksdesign.com • Los Angeles • 805.370.1200



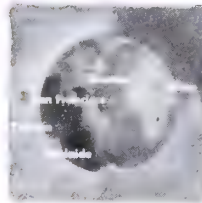
EDGE
INDUSTRIAL
DESIGN

Concept Development Engineering
Pro/Engineer Alias
Working Prototypes Appearance Models

sales@edgeid.com

805 496 5050

CONTINUUM



Global Strategic Partner

Design Continuum Inc.
Boston 617 969 5400
San Francisco 415 905 8380
Milan 39 2 551 33 72
main@continuum.com

HENRY DREYFUS ASSOCIATES

PRODUCT DESIGN
GRAPHIC DESIGN
MULTI-MEDIA
HUMAN FACTOR
IDENTIFICATION

1-800-957-8662 fax 212 242 7020
www.hda.net

ALTITUDE

Product Design
R&D Development



(617) 621 7600
www.altitudeinc.com

1998 IDEA Winner

www.ginkgodesign.com
GINGKO DESIGN

415.333.8111

portland
san jose
tampa
tokyo

ziba
↑

503 221 9606

Palo Alto Products INTERNATIONAL



www.paloaltoproducts.com
650 327 9444

BOTZEN DESIGN



NATURALLY ELEGANT
INDUSTRIAL DESIGN
www.botzen.com

STRATOS



SEATTLE

206 448 1111
www.stratos.com

Unigraphics 2010

File Edit Toolbox Arrange Assemblies View Layout

Cue Choose a Feature to Create

Create Feature



INNODSIGN and Unigraphics Solutions
-A Powerful Combination.

314.264.2687 www.ugsolutions.com

INNODSIGN
INNODESIGN

650.493.4646 www.innadesign.com

415.896.1438 • INFO@ZOE.COM

/ZOE/

USA • SINGAPORE

CDI
CESARONI
DESIGN
product development

Chicago Milwaukee

773.724.0840
m@cesaroni.com

INSIGHT

Award winning industrial design
978.246.4400

www.productinsight.com

INDUSTRIAL DESIGN RESEARCH

SUNDBERGFERAR
PRODUCT DEVELOPMENT FOR BOTH SIDES OF THE BRAIN

web site www.sundbergf.com

detroit 248.360.3800 minneapolis 612.338.7707 chicago 312.280.9700

INDUSTRIAL DESIGN
ENGINEERING
IMAGING
GRAPHIC DESIGN

LUNAR

650.326.7788
INFO@LUNAR.COM
WWW.LUNAR.COM

Wert & COMPANY
INTERNATIONAL
CREATIVE
Recruitment

Product Design
Environments
Graphic Design
Interactive Media
Film/Video
Strategic Design

phone 212.684.2796
info@wertco.com
www.wertco.com

+ DESIGN RESEARCH
+ ERGONOMICS
+ DESIGN VISUALIZATION

Metaphase

MEASURING PEOPLE & DESIGN
Performance + Behavior + Perception + Emotion

314.432.0300 ext 148 help@metaphase.com

Strategic DESIGN
ENGINEERED
for global
SUCCESS

Market Analysis • Product Design
Engineering • Prototyping

Shaanat Design
Group

Canada USA Taiwan

888.735.9570
mailto:gadshaa@sprynet.com

DESIGN CONCEPTS

INDUSTRIAL DESIGN
MECHANICAL ENGINEERING
ELECTRICAL ENGINEERING
PROTOTYPING

800-344-2623

solutions

One of the many reasons to work with Mito Product Development

A leader in Industrial Design, Engineering, Prototyping, and Fabrication of Injection Molds, all under one roof

mito 6719 pine ridge court
Jenison, MI 49428
616.669.6800 fax 616.669.9912

HERBST LAZAR BELL INC

RESEARCH
DESIGN
ENGINEERING
PROTOTYPING

355 NORTH CANAL ST
CHICAGO, IL 60606
PHONE 312.454.9019
FAX 312.454.9019
WWW.HLB.COM

A '98 Gold Award Winner
Home Bullet Wax

GROUP

www.groupfour.com
Avon, Connecticut
860.678.1570

Design for what's next.

ROCKETDESIGN

Product Packaging and Signage

847.559.9188
al@rocketdesign.com

Industrial Design
Engineering
Prototyping
Tooling
Assembly
Production

I.N. INCORPORATED
4392 Corporate Center
Los Alamitos, CA 90720
714.236.8979 www.in-inc.com

insight
product development

Chicago • Philadelphia • Boston
773.907.9500 www.insightpd.com

Brooks Stevens Design
strategic product development



www.brooksstevens.com

**PRODUCTS
THAT
COMPELSM**

IDI

Innovation Consultants & Designers
201.911.7500 www.idiusa.com

Arthur D Little

Technology
for
Business
Advantage

Product Development
e-mail innov8@adlittle.com
voice 011 617 498 6556

The
Design Search
Specialists
(since 1959)

www.stoneandco.com

Headquarters
781.356.7000
781.356.7000

Dallas Office
800.DEE.SYN
903.494.7600

Stone

SOMA

PRODUCT
DEVELOPMENT

303-241-1900

DESIGN

www.designetinfo.com

taylor & chu
(+1) 415.291.9903

design central
(+1) 614.444.0202

roche harkins
(+1) 603.465.9800

IGNITION

investigative design



dallas
www.ignition.com
972.423.7070

**37 IDEAS
Awards**

or for

FITCH ~
what's next?

THE HARRY DESIGN GROUP



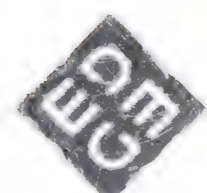
CHICAGO 847.677.3777

**Practical Business
Experience
& Design Excellence**

- Applied Technology & Product Development
- Packaging & Merchandising
- Corporate Communications

Proteus Design
N. Washington St.
Eighth Floor
Chicago, IL 60610
312.467.1111
www.proteusdesign.com

EDGE



www.designedge.com

elab

913 West Institute Place
Suite 509
Chicago, Illinois 60610
(312) 640 4450
<http://www.elab.com>
ethnographic research for design

LOGICA

LOGICA PRODUCT DEVELOPMENT

contact to market...
the distance between
concept and reality

e-mail info@teamlogica.com
web www.teamlogica.com

IDSA
ILLINOIS DESIGN SOCIETY

612.672.9495

Measured By Market Success

Los Angeles 805.499.9590
Miami 089.1211600

JOS full service
product
development

info@josdesign.com



Chicago, IL
tel: 312-644-5677
fax: 312-644-5678

elab

913 West Institute Place
Suite 509
Chicago, Illinois 60610
(312) 640 4450
<http://www.elab.com>
ethnographic research for design

New Product Development

Engineering
Industrial Design
Product Positioning
Human Factors

IEA 1998
IEA 1997
IPEX 1996

Cellulose Design
through
2-361-0907
www.daed.com



Industrial Design
through Production

**Accountable
Innovation**



MICROPLAS
978.368.3200
www.microplas.com

Three-
dimensionalizing
your
brand

Product
Exhibit
Retail

Development
Envisioning
Identity



Arnold & E
212 343 5790
212 334 0175 - fax
a3d@aol.com
New York

**RITASUE
SIEGEL
RESOURCES**

Search & Design
Firm Selection



Top established and emerging national and international companies trust us to find them the best design managers, creative directors, designers and design firms. In all areas of industrial design, graphics, interiors and retail design, architecture, identity, packaging, user interface, multimedia, strategic design planning, etc... we match the best opportunities with the best people. Call 212 682 2100, fax 682 2946, 20 East 46 Street, New York, NY 10017-2417, RitaSueS@aol.com, www.core77.com/RitaSueSiegel/index.html

[POWER BRANDS]

in
3d

DESKEY

CONSULTANTS IN DESIGN AND IDENTITY
NEW YORK 212.447.9400 | CINCINNATI 606.655.2300

The products
of award-winning
design.



AndersonDesign

1998 IDEA
Gold,
Silver,
Bronze
Awards

www.andersondesign.com

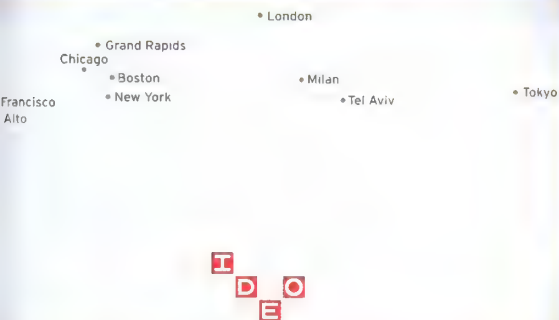
**E C
C O**

New York

212.989.7373

Info@ecoid.com

www.ecoid.com



800.600.4336 Europe 44.171.485.1170 Tokyo 81.3.5570.2664



Toy Invention
Children's Products
Industrial Design

**K
I
D**

Klitsner Industrial Design

58 Second Street, 5th Floor
San Francisco, CA 94105
www.klitsner.com

Alias|wavefront
INDUSTRIAL DESIGN SOFTWARE

Explore design concepts in 3D. Produce spectacular photorealistic presentations that impress clients and win business. Deliver manufacturable 3D models that maintain your design intent through downstream engineering and manufacturing processes. Discover what thousands of successful designers across the world have learned - how to increase your competitive advantage with Alias|Wavefront.

E-mail: info@wvfront.com
Web: www.wvfront.com
North America: 1 800 447 2542
Europe: 32 9 266 1212
Asia Pacific: 81 3 3470 8282

Training Ground for
the Real World
Industrial Design



Academy of Art College
29 New Montgomery St.
San Francisco, CA 94105

800•544•ARTS
www.academyart.edu

Senso by **WIDEX**
100% Digital



WIDEX is the world's leader in state-of-the-art 100% digital hearing instruments like the nearly-invisible **SENSO CIC**, the smallest, most advanced hearing instrument ever developed. The **SENSO CIC** puts powerful CD-quality Digital Signal Processing into an automatic device that fits completely in the ear canal.

Hundreds of thousands of **SENSO** instruments have been fit worldwide to help those with mild to profound hearing losses - making it the world's best-selling digital hearing instrument.

WIDEX has created superior hearing products for over four decades. For information, call: 1-888-999-3779 toll-free or visit our website at www.widexusa.com.

**CALL
US**



312 872-8722

Industrial Design Directory

COMPANY INFORMATION

For more information on the companies in this directory, you can either log on to the Internet, or use the telephone.



BizLink

www.businessweek.com/BizLink/

BizLink is Business Week's electronic reader service fulfillment system. You can request information and/or link directly to company websites. Or simply call 1-800-848-6708 to request information by telephone. Companies are listed in the May 25, 1998 issue.

- | | | |
|-------------------------------|-------------------------------------|---|
| 101. A3D Arnel Group | 120. Fitch Inc. | 139. Pado Alto Products International |
| 102. Academy of Art College | 121. Gad Shashani Design Inc. | 140. Product Insight, Inc. |
| 103. Alias Wavefront | 122. Gingko Design Inc. | 141. Proteus Design |
| 104. Altitude, Inc. | 123. Group Four Design | 142. RitaSue Siegel Resources |
| 105. Anderson Design, Inc. | 124. Henry Dreyfuss Associates | 143. RKS Design, Inc. |
| 106. Arthur D. Little | 125. Herbst Lazar Be | 144. Rocket Design |
| 107. Botzen Design | 126. IDEO Product Development | 145. SoMA, Inc. |
| 108. Brooks Stevens Design | 127. I.N. Incorporated | 146. Stone & Company |
| 109. Cesaroni Design | 128. Ignition Inc. | 147. Stuart Karten Design |
| 110. Daedalus Design, Inc. | 129. INCODES, Inc. | 148. Stratos Product Development Group |
| 111. Design Central Designnet | 130. Innovations & Development Inc. | 149. Sundberg Ferar Product Development |
| 112. Design Concepts | 131. Insight Product Development | 150. The Hari Design Group |
| 113. Design Continuum | 132. Joss Design | 151. Wert & Company |
| 114. Design Edge | 133. KID, Inc. | 152. WIDEX |
| 115. DesignWorks USA | 134. Logica Product Development | 153. ZIBA Design |
| 116. Deskey Associates | 135. Lunar Design | 154. Zoe Design Associates |
| 117. E-Lab, LLC | 136. Metaphase Design Group Inc. | |
| 118. ECCO Design, Inc. | 137. Microplas | |
| 119. EDGE Industrial Design | 138. Mito Product Development | |



IDSA

www.idsa.org

This site lists a brief description of the companies in the directory, along with contact numbers and company hotlinks. It also features a Gallery of the 1998 IDEA winners, current industrial design news and resources, hotlinks to related sites and a calendar of design events.

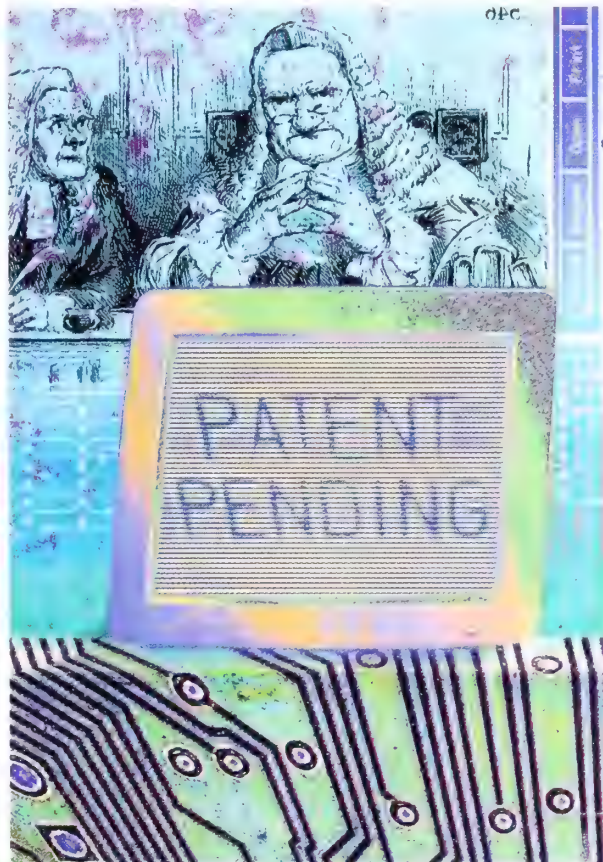
FROM THE PATENT WARS, PATENT MEDICINE

Net can level the playing field in infringement suits

the instantly recognized symbol of the Netscape brand: the animated teardrop shower in the upper right-hand corner of the computer screen indicating that the browser is retrieving information from the Web. But in 1997, Wang et al. Inc. claimed that it owned a patent giving it rights to this celestial display—and initiated a suit that struck at the heart of Netscape Communications Corp.'s marketing identity.

Normally, a company hit with this type of suit would turn to "patent busters," specialists who use their contacts and knowledge of the U.S. Patent & Trademark Office's archives to hunt down "prior art" or evidence of preexisting claims that would undermine the patent's validity. Such searches cost around \$30,000 a pop, though they don't always yield results. But Netscape had a better idea—it turned to the Internet. On April 1, it posted on its Web site an appeal for information on prior art that might undercut Wang's claims. Three days later, Netscape had nearly 200 leads.

CORNER. The outpouring from software developers—and the quality of the responses—galvanized Netscape. The company decided to continue fighting Wang rather than settle. It paid off Wang's argument that Netscape was infringing on a 10-year-old patent for technology that used an animated teardrop to alert a user when a program was retrieving information. The judge ruled that the patent did not apply to the Internet; Wang appealed. "Our confidence in our defense was bolstered by the fact that the Net provided us with a powerful reaction against the explosion of software patents. These patents have grown from 1,300



issued in 1990 to nearly 12,000 in 1997 as Internet software has become a hot corner of the economy, according to the Internet Patent News Service in Belmont, Mass. At the rate of about 300 software patents issued weekly, by the year 2000, they could hit about 80,000, says Gregory Aharonian, founder of Internet Patent News Service.

Critics charge that the Patent Office can't keep up with companies clamoring to patent every little innovation in software, and therefore isn't as thorough as it should be in its review of prior art. That's leading to a proliferation of unfounded patents—and to an upsurge in patent infringement claims as well. "Get

ready to be sued," warns Aharonian.

Indeed, Netscape's maneuver has opened up a new battleground in the fight for ownership of valuable ideas. Intellectual-property disputes will still be decided in court. But the Web itself is providing fodder for more software patent litigation, since claims can be challenged more quickly and without having to pay for full-blown searches

for prior art every time.

What's more, the Web could end up eroding the advantage that big companies have traditionally enjoyed—their ability to outspend opponents in patent battles—as more small companies follow Netscape's lead. "Patent litigation is very expensive," says Robert P. Merges, professor of law at the University of California at Berkeley. "What's so promising about this approach is that it gives smaller players an alternative."

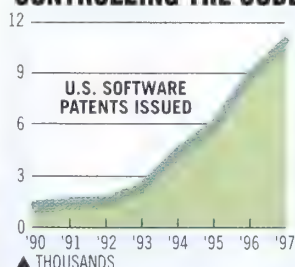
CART COLLISION. The next target of this tactic may be Open Market Inc., which used its Web site in February to post three patents newly issued to the company. A handful of companies and Web developers are considering mobilizing on the Web to challenge Open Market's patents, which are very broad and include one on elec-

tronic "shopping carts." These enable shoppers to click on items and add them to a list of purchases as they browse the Web. They're built into nearly every major commerce site, from Amazon.com to llbean.com.

The new gambit has some pitfalls, however. "You've got to think twice before making a public plea for prior art," says Alan M. Fisch, a patent litigator at Washington's Howrey & Simon. "In some sense, you're making an enormous admission that you have nothing," when a company defends itself in such a public fashion. There is also a danger that broadcasting appeals for help will elicit a lot of junk that could burn up billable hours to sort through. Still, the Web itself has given companies, and smaller players in particular, a way to cope with the growing glut of patents gumming up electronic commerce.

By Paul C. Judge in Boston

CONTROLLING THE CODE



DATA: INTERNET PATENT NEWS SERVICE

Mattel's fierce, flamboyant CEO is breaking stereotypes about corporate success

In 1987, she joined the Bill E. Harbo Club in from Los Angeles, the chairman and chief executive of toy giant Mattel Inc. is launching her work in the context of a firm as it celebrates the 40th. Mattel's 1987. It is about an hour's drive from the city of 1200 people at the New York Harbo Club is creating an award from Girls Inc., formerly Girls Club of America.

At the luncheon, Barad, dressed in her signature high heels and tailored Chanel suit, listens intently as three other women—Barack Obama's P. Diddy and Beyoncé—receive polite applause from the crowd. But when Barad finally strides into the spotlight, the effect is electrifying.

Glamorous and radiant, she seems more Hollywood than anyone I could imagine. She's a 34-year-old, 1.70-meter-tall girl who has struggled with alcoholism and drug problems. But now, after the release of her new album, she is the life, love, and laughter of a young crowd of adoring devotees and wannabe divas. "It's great to be a role model for young girls," she says, smiling broadly. "I tell them, 'Don't drink, don't do drugs, don't smoke.' I tell them, 'I did say that for you girls, anything is possible.' It's a line Barad has used before, and it's always a thunderous applause."

Few executives can work a crowd like Jill Barad. "You can't help but be sucked up by her energy," says Shelly

Cover Story

The Rise Of





**BARAD WITH CHILDREN
OF MATTEL EMPLOYEES
FROM THE COMPANY'S
DAY-CARE CENTER**

rus, CEO of Ogilvy & Mather Worldwide Inc., Mattel's advertising agency. Fewer still know how to work an audi- so easily while weaving in a plug for their company. "At el, I worked on a brand that changed my life, and her e was Barbie," she says, staring intently into the audi- "When Barbie is in a little girl's hands, she is a vehicle reaming, for imagining what girls can be."

ere's no small irony that one of the most powerful, st-paid women in Corporate America credits her success lling an icon that women's groups have been denouncing xist and demeaning for decades. But make no mistake: d is no Barbie. A fierce competitor with an unerring eye rends in popular culture, she has used her keenly tuned e of style, packaging, and consumer tastes to help build el into a \$4.8 billion powerhouse. And in her rise to the he 46-year old Barad has shown herself to be as tough

inside her own company as she is in her dealings with com- petitors in the cutthroat, big-bucks toy industry.

Barad started at Mattel as a \$38,000-a-year product manag- er in 1981. She rose to CEO by January, 1997. Over the past three years, she has pocketed \$23 million, and she holds options to buy 4.9 million Mattel shares. At a time when such top fe- male executives as PepsiCo Inc.'s Brenda Barnes have left Corporate America behind to spend more time with their fam- ilies and others remain thwarted by the glass ceiling, Barad is one of a handful of women to head a major American company.

Today, Barad is so rich and powerful that, like it or not, she has become a role model for many ambitious women trying to balance career and family. On the boards of Microsoft Corp. and Pixar Inc., Barad counts among her circle of associates Silicon Valley titans and Hollywood celebrities. "She has bro- ken every stereotype about successful corporate women,"

says Sheila Wellington, president of Catalyst, a group that does research on women in business. "She has proven you can work your way up from the bottom, that you can have a family and be a CEO, and that you can be very tough and very feminine."

That's just the sort of comment that makes Barad squirm. She insists she never asked to be a role model and wants only to be judged on her track record as any other executive. And it is stellar. As head of the Barbie line starting in 1983, Barad was key in pulling off one of the most dramatic turnarounds in recent memory. Recovering from near-bankruptcy in the 1980s, Mattel has boasted 33% annual compounded growth over the past decade. Its share price has also soared, roughly quadrupling since 1994, to \$42.

Mattel owes most of its success to Barbie. The doll's sales grew from \$200 million in 1982 to \$1.9 billion last year, making it one of the most recognizable and dominant brands on the planet. Even after acquiring rivals Tyco Toys Inc. and Fisher-Price Inc. in recent years—moves meant to broaden its product lines—Barbie still contributes 38% of Mattel's sales. And though Mattel doesn't break it out, analyst Harold Vogel of Cowen & Co. figures Barbie rakes in a phenomenal 55% of operating profits. **BIG TASKS.** Now, Barad may be facing her biggest challenge yet: proving she can keep the Mattel success story going. On Apr. 16, the company reported a 16% drop in Barbie sales, the first such quarterly decline in five years. And after growing at roughly a 20% annual clip in the mid-'90s, analysts expect Barbie sales to slow to just 6% this year. Although part of the problem stems from a Toys 'R' Us Inc. inventory adjustment, the larger issue may be that Barad has simply done her job too well. Little girls' bedroom closets are stuffed with Barbies: The average American girl owns nine. "Barbie is hardly in a tailspin," says

John G. Taylor, an analyst at Portland (Ore.)'s Arcadia Investment Group. "But as a

international sales, to \$3.4 billion, within five years. To get there, Barad has overhauled Mattel's global marketing, centralized its European warehousing and shipping. Still, international growth is a strategy Mattel has tried and failed with before: Overseas sales have been flat for four years, ending at \$1.6 billion.

Barad isn't worried. She relishes a good fight. "When it comes to strategic underpinnings and what is broken and what needs to be fixed, those are the challenges that I love," she says. "I love looking for the holes." She has already plugged a bunch of them. It was Barad who forged several of Mattel's key links to Hollywood studios. She fought for and won an expanded agreement with Walt Disney Co. for the right to license toys based on its films. She cut a similar deal with Viacom Inc.'s Nickelodeon years before the cable network became a huge hit. Today, Mattel gets an estimated 10% of operating profits from such entertainment deals.

It's all a long way from the life Barad imagined for herself growing up in Queens, N. Y. All her interests as a young girl pointed toward show biz—a reflection, perhaps, of her father, Lawrence S. Elikann, a technical director for NBC and later a TV director and producer. Even as a small girl, Barad loved to dress up and put on shows. She memorized Broadway show tunes, then would put on nightly performances. "I'd try to sleep, and she'd be standing up on her bed, belting out songs from *Oklahoma!* or *The Sound of Music*," says her mother, Jo-Anne Elikann.

When Barad was 16, she got a summer job modeling bottoms for a company called Happylegs. But she did more than pose. "She couldn't wait to try on the clothes, to see how to meet customers, how to sell, how to talk," says



Cover Story

growth vehicle, she is starting to look questionable."

With Barbie's growth waning, Barad is counting on its 1997 Tyco buy to pick up the slack. So far, the strategy is working. By trimming costs and rapidly folding Tyco's popular *Sesame Street* and Matchbox toys into the fold, Mattel pushed 1997 earnings up 34%, to \$500 million, on revenues up 7%, to \$4.8 billion. This year, Vogel projects earnings growth of 16%, on a 6% sales hike.

But behind the solid numbers, Barad faces some big tasks. The \$1 billion Fisher-Price unit remains troubled after a failed push into pricey playground gear. And revving up Barbie again won't be child's play. In the U.S., Mattel is counting on a recent makeover to revive demand; the busty doll will gradually be replaced by one with a more up-to-date look and realistic proportions. But Mattel is pinning its real hopes overseas. To boost sales abroad, where Barbie isn't omnipresent, Barad is introducing new dolls tailored to regional cultures.

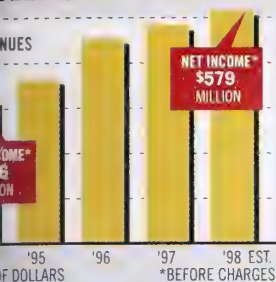
Indeed, with all Mattel's brands, Barad is making a major push to expand into global markets. She vows to double in-



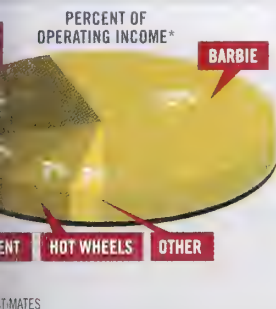
BARAD ON WOMEN IN THE WORKPLACE

"Don't have thin skin. You can't worry what people

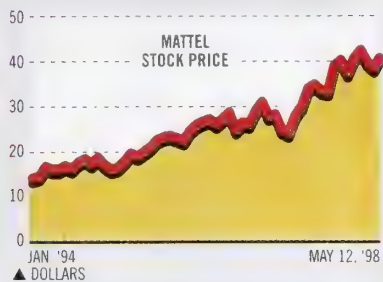
ACQUISITIONS ARE FUELING GROWTH...



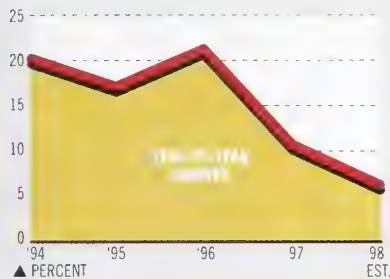
UT PROFITS STILL DEPEND ON BARBIE...



...AND DRIVING UP MATTTEL'S SHARE PRICE...



...AND BARBIE SALES ARE SLOWING



DATA: COMPANY REPORTS, BLOOMBERG FINANCIAL SERVICES, COWEN & CO

Quile, an owner in the family-run operation. "She took everything in."

After three years at Queens College, Barad dropped out in 1974 to take an \$18,000-a-year gig selling makeup for Love Cosmetics. Back at school a year later, she got a degree in psychology and English. "I had no clue what I wanted to do," says Barad. "I just saw jobs as fun. I had no goals." She tried acting and landed a bit part—a nonspeaking role as Miss Italian in a forgettable Dino De Laurentiis film, *Crazy Joe*. Finseltown wasn't for Jill. "It was so superficial, so silly," says Barad.

In 1974, she went to work for Coty Cosmetics as a travel-cosmetician-trainer. As she traveled the East Coast, she noticed that wherever she went, Coty products were hidden away. So Barad designed a wall display for a facial powder and went to headquarters. "She knew conceptually what could be done to make the products look better in stores. We used her idea for 20 years," says Jim McDougald, Barad's boss and a senior vice-president at Coty.

Then, six months after meeting an aspiring movie producer, Thomas K. Barad, Jill shelved her Coty career to join him in Los Angeles. Barad, then 26, quickly got a job at an advertising agency representing the Max Factor & Co. account. The couple married a year later, in 1979. A few months later, when she realized she was pregnant, Barad quit her job. "I said O.K., that's it. I am now a wife and a mother." It was a job description she had always assumed would suit her just fine. But when the baby came, Barad fell into a depression. For the first time, she realized just how much she meant to her. "It wasn't the baby," she insists. "He slept a lot. It wasn't fair." Frustrated at home, with little to

do, Barad found daily relief by putting her newborn, Alex, in his carriage and rolling him into a nearby May Company Department Store, where she sized up the new fashions.

"I would come home from work and all this unspent energy would hit me," recalls her husband, Tom. "I told her to go back to work." Through a headhunter, Barad landed at Mattel's novelty-development unit. It was an obscure backwater, but Barad zealously attacked each assignment. Her first project was "A Bad Case of Worms." The rubbery toys were supposed to slither down walls. Instead, they dropped to the floor. Barad stayed up all night to rush out a commercial to present the next morning to Toys 'R' Us buyers.

"WHO IS THIS GIRL?" The product flopped, but Barad's homemade promo moved a lot of worms. It also won the attention of her boss. "When someone does something like that, you stop and say: 'Who is this girl?'" recalls Tom Kalinske, then head of Mattel and now CEO of Knowledge Universe, an education-services company. He found out quickly enough. Barad soon stormed into his office. "What the f— do I have to do to get a decent assignment around here?" Kalinske recalls. Barad's memory is different. "I think I said: 'There must be something better than worms.'" But, she adds, "I always fought for my point of view."

With her sharp tongue and combative nature, Barad thrived in Mattel's competitive

culture. "It has always been a place where people are pitted against each other," says Judy Schakelford, Barad's former boss. "It's a shark pond. You throw people in and see if they can swim fast enough to stay alive. For Jill, it was a fit." After just two years with the company—and a string of hits, including She-Ra, the first action figure for girls—Barad landed on the Barbie team as one of two product managers.

Barbie had been a Mattel mainstay since her introduction in 1959. But by the early 1980s, she seemed dated. Barad's job was coming up with "roles" that would turn Barbie into a doll for the '80s. Her first big hit, in 1985, was the Day of Night Barbie. By day, Barbie was a stylish exec; by night, a party girl. The doll sold out in months.

There were many more victories as Barad built Barbie from a respectable \$200 million product to a \$1.9 billion brand using a "segmentation" strategy. The idea was to pump up sales by selling dolls for countless "play patterns," such as shopping, dating, and going to the beach. It wasn't Barad's concept, but she executed it beyond anyone's wildest dreams.

Still, there were chaotic days in the mid-1980s, when Mattel was on the brink of bankruptcy after the collapse of its videogame business in 1984, and again in 1987, when its popular action-figure line, Masters of the Universe, deflated. And as she rose, Barad's politicking and flamboyance rubbed some the wrong way. "Many men hated me," she says. "I think it can be a tough thing for a man to lose to a woman."

One boss called Barad into his office and dressed her down for constantly shooting off her mouth at meetings. "He said: 'You shouldn't pretend to know all the answers,'" she recalls. And he warned her that she "wouldn't go far." Indeed, when another male manager was brought in over her, Barad

you. As painful as it may be, don't take it personally ”

JILL ELIKANN BARAD

was so convinced he was about to fire her that she stormed out of the company. The manager, Joe Morrison, claims he had no such plans but concedes there was strife between Barad and the four other marketing vice-presidents, who complained that Barad wasn't a team player.

Women, too, were taken aback by Barad's style. She arrived at Mattel at a time when many working women were wearing conservative navy-blue suits. But Barad showed up in short purple skirts with matching purple cowboy boots. "One woman took me aside and said it might be to be my advantage to tone it down," says Barad. "I did. But I never became a corporate he-woman."

The turmoil seemed only to heighten Barad's appetite for sparring. "I just always wanted the next job," she says. "She was never afraid to go in and ask for a raise," says Paul Cleveland, who headed boys' toys in the mid-'80s, when Barad headed girls' toys. "She would just go in and tell people what she wanted, and ask: 'What do I have to do to get it?'"

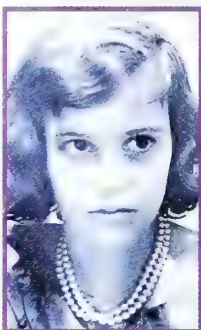
Barad's maneuvering inside the company was nothing compared with how she went for the competition's jugular. When Kenner Products tried to introduce its Miss America fashion-doll line, Barad quickly readied Beauty Pageant Barbie and pressured retailers not

to carry both. Mattel also sued Kenner for copyright infringement. "She literally stopped us at the docks," recalls Bruce Stein, former head of Kenner and now No. 2 to Barad as Mattel's president (page 120). "I was really pissed off," he says. "But I guess I also had to admire her ferocity."

In 1989, Barad, then an executive vice-president, made a bold move: She threatened to leave for a top job at Reebok International Ltd. unless she got a promotion. Barad even told Mattel that she had looked for a new house in Boston. Reebok officials decline comment on the episode, but CEO John Amerman made Barad a co-president of Mattel's U.S. operations. Then, in 1992, she went back to Amerman, this time demanding assurances that she would succeed him. "There was some trepidation on both sides," says Amerman. "My retirement was still a long way away." Even so, Amerman made her president and chief operating officer. And with incentives, Barad's compensation doubled, to \$2 million. Her contract even included a guaranteed payout of five years' compensation if she

BORN 1951, Queens, N.Y.

EDUCATION BA 1973, Queens College: English, psychology, drama



FAMILY Married 19 years to Tom Barad, an independent movie producer. Children: Alex, 18, and Justin, 15

FIRST JOB Working the cash register at grandparents' pharmacy

WORST JOB Playing Miss Italian America in Dino De Laurentiis film *Crazy Joe*

FAVORITE STATISTIC Three Barbie dolls are sold every second

HOBBIES Watching TV, musicals, movies; buying modern art

TV FAVORITES The Food Channel, *Seinfeld*, *ER*, *The X-Files*

FAVORITE PIECE OF ART Andy Warhol painting of Barbie

MOST PAINFUL MOMENT When her son's third-grade teacher finally met her and said: "Oh, Alex really does have a mom"

NO. OF BARBIE DOLLS IN HER OFFICE 52

HOW SHE DESCRIBES HERSELF "I am a Gemini, I am off the ground. I am definitely an air person. I am not calm. I am pretty stable, but I am out there, thinking all different things"



were passed over for C. When Barad finally took over, the transition was rocky. By nature spontaneous and emotional, she took over from the cautious, distinguished, white-haired Amerman, who was 10 years her senior, just as paint was beginning to peel off Mattel. There was an employee lawsuit that had to be dealt with, charge accounting irregularities and sales were sinking its Fisher-Price subsidiary. **TICKER SHOCK.** Initially Barad's inexperience with the financial community only made things worse. Just a few weeks on the job, she told analysts that she would no longer focus on short-term results. "Judge us on the year," she declared. "Wall Street made its judgment by the end of the call. 'I was like, 'This is really fun, I love this job,' says Barad. "My first week, our stock plummeted eight points."

But as Barad found

way, she moved quickly to put her imprint on Mattel and culture. From repainting the walls in bright colors to extending benefits to domestic partners and lengthening Christmas vacation to 16 days, Barad has clearly taken charge. When she finished her annual financial review, replayed on video for Mattel's 25,000 employees, she extended both arms, saying: "I love you all." Says Barad: "This is my feminine, nurturing side." Barad is also working overtime to put her stamp on Mattel's strategy. She is trying to catch Hasbro in a push to battle traditional toys with the exploding world of computers and the Internet. Mattel has created a new generation of toys: Bears, race cars, and other toys stuffed with microprocessors, including a Barbie digital camera that lets girls take pictures of themselves, then download their images to appear on the screen with Barbie. Although still small, the division quadrupled last year, to \$80 million in sales.

To move closer to the digital world, Barad has joined the boards of Microsoft and Pixar. In 1997, Mattel joined a consortium at Massachusetts Institute of Technology to develop standards for high-tech toys and formed a joint venture with Intel Corp. to create futuristic toys. "She is a dynamo," says Intel Chairman Andrew S. Grove, who recently invited Barad to give a presentation on branding to his senior executives. Pixar CEO Steven P. Jobs credits her with talking him into leasing *Toy Story II* in movie theaters instead of taking it straight to video. "She has a gut intuitive feeling... and trusts those instincts," says Jobs.

But Barad can also be extremely hands-on. In a re

Cover Story



"Choose your environment carefully. If the culture isn't supportive of women, leave."



What's more impressive?

The fact that Nasdaq
can handle over a billion
shares a day, or that
MCI helps them do it
without a trading floor?

Nasdaq needed the world's largest intranet. MCI gave it to them. The free-enterprise system is alive and well—and living within the world's largest intranet. Nasdaq, the world's most advanced stock market, chose MCI to design, build and maintain the backbone of their business. A network that connects 120,000 computers around the world. And delivers data to each Nasdaq broker within 50 milliseconds. Sometimes quite a bit of data—October 28, 1997 saw 1.37 billion shares traded, without interruption. And as Nasdaq grows, so does their relationship with MCI. We're now developing their next-generation network—capable of handling four billion shares a day. To find out how MCI can help manage your intranet and data needs, visit www.mci.com/data.

internet





PARTNERS: *Husband Tom "played mom and dad for a long while. He took [the boys] to the doctor and for piano lessons*

Barbie makeover, for instance, all possible options were presented to her. "In five minutes," says an insider, "Barad flew around the room: 'This hair, these legs, this face, these pants, this color.'" Barad's style often speeds the process, insiders say, but just as often she is seen as meddlesome. "It is a blatant problem. Why is the chairman looking at every design concept?" says a former executive.

Barad's no-nonsense style has played a role in the recent departures of three top execs of the Barbie brand, including the brand's general manager, Jean McKensie, according to some insiders. "She doesn't

always balance her high standards with strokes, rewards, or acknowledgments," says a former senior executive. And some say Barad can be downright rude. One former brand director recalls a meeting in which Barad asked for a glass of water. When a secretary brought some, Barad looked at the glass and snapped: "This better not be tap."

Outside the company, high-ranking women are watching Barad's progress. "It's an unbelievable responsibility to be the one paying the way. A lot of women are rooting for her," says Avon Products Inc. President Andrea Jung, a business partner and friend. "I look at Jill not just as a woman who made it to the top but as a products person who made it to the top." And to those who say Barad is too tough, others caution against applying a double standard to women and men execs. "These people calling her abrasive, have they met Ted Turner? Have they met Michael Eisner?" asks Geraldine Laybourne, president of Disney/ABC Cable Networks. "Compared to most CEOs, she is not abrasive. But maybe compared to their wives she is."

Away from work in her sprawling \$4 million, Mediterranean-style Bel Air mansion, Barad looks tanned and relaxed after a recent spa vacation. Chatting about knocking down the house next door to plant a vegetable patch, Barad reflects the pros and cons of "having it all." Her success has taken a toll. Her tough schedule has aggravated health problems, and she is so allergic to various foods that trips to the hospital, colleagues say, are not uncommon. Barad winces as she talks about missed birthdays, school plays, and soccer games. Once, she confides, when her second son Justin was small, he told Barad he feared she would never come home from a trip she was about to take. From that point, Eric says, she has never missed a birthday.

AT-HOME DAD. Her career might not have happened at all if she married a more conventional husband. But Tom stepped back from the Hollywood rat race when the boys were young, choosing assignments that didn't require much travel. "He played mom and dad for a long while," says Barad. "He took them to the doctor and for piano lessons." These days, he is working on infomercials and a feature film. Last year, his company pulled in \$691,000 from Mattel for a Barbie spot.

Friends say the Barads, who first spotted each other on the side at the Beverly Hills Hotel when they were both single, are ideal complements. Tom is self-deprecating, calm, and reflective. Jill, on the other hand, is "type J," says Tom. She paces when she is talking on the phone and is emotionally intense, and competitive—even while playing Scrabble for recreation. "I don't think I have sat behind my desk for 10 minutes in 18 years," says Barad.

She has no regrets about the compromises she has made to balance career and family. "There was no choice," she says. "My kids are the most important thing in my life. I couldn't

Cover Story



“Make yourself visible. Be very vocal and always fight for your point of view”

ine life without them. And I also can't imagine my life out work."

ns Alex, 18, and Justin, 15, have long since learned to their mom's high-profile job in stride. Alex recently ed at a Blockbuster Video store and plans to go to col- in the fall. Justin, who's into computer programming playing his flute, will do a summer stint at a videogame- rare company.

r all the Barads, pop culture is a necessary ingredient- ily living. The whole family reads *Teen People* maga- Watching *ER* and *The X-Files* are weekly family rituals. s the one thing that relaxes Jill," explains Tom, who es Jill wouldn't watch so much TV. "She is a Food nel addict. It is on around the clock." When she travels, eaves CNN on all night.

ese days, Barad is busy remodeling. The centerpiece of

the eclectic house is a six-foot-tall Barbie statue on the staircase. A painting of the blonde icon by Andy Warhol is in the living room. "To me and the boys, [Barbie] is a sym- bol of watching Jill grow as a professional woman, watching her prove her creativity," says Tom.

If Barbie is the Barads' symbol of success, then surely Jill Barad herself is an equally powerful icon for corporate women. She broke the glass ceiling—and did it with style and panache. She has thrived in a man's world but isn't afraid to say "I love you" to her staff. In a remarkable career, she has been able to celebrate both her femininity and her ambition. It seems her mother was right: Bumble- bees shouldn't be able to fly. But they do. And so does Jill Barad.

By Kathleen Morris in El Segundo, Calif.

IF YOU CAN'T BEAT HER, JOIN HER

n the early 1990s, Bruce L. Stein was Mattel's Public Enemy No. 1. As the head of Hasbro's Kenner products, Stein launched a steady und of hits based on blockbuster oves such as *Jurassic Park*, *Ter- inator 2*, and *Batman*, each one mmeling Mattel's action-figure ferings. "We were arch-competi- rs," says Stein of then Mattel esident Jill Barad.

These days, though, Stein and arad are on the same team. Follow- g a string of high-level defections ore she took over as CEO, Barad ed a strong No. 2. So she ag- essively went after Stein, signing m in 1996. His mandate is to add ore muscle to boys' toys while eping the Barbie engine fired up. So far, Stein has won kudos for in- grating Tyco Toys Inc. into Mattel er it was purchased in early 1997. at helped fuel last year's 34% jump earnings. By merging toy carmaker atchbox and Tyco Radio Control ys into the same lane as Mattel's st-growing Hot Wheels, Stein now ives a \$600 million boys' toys iness. And by putting Mat- 's marketing punch be- nd such popular co toys as Sing & ore Ernie, Stein lped triple its ame *Street* busi- ss in 1997.

Barad and Stein are nsidered two of the best ategists in the industry. Full of ergy and ideas, they "are like le and female counterparts of ch other," says Judith A. Shack- ord, who was a boss to both exec- ives at Mattel in the mid-1980s. ie athletic 43-year-old Stein "is

there to provide the creative spark," says analyst Joseph Kinnison at American Express Advisors, a Mattel shareholder. "Jill had been that. But she now has other duties."

They've also long been in- tense rivals, though they've of- ten had to work closely togeth- er. First, early in his career, Stein was an account represen- tative at ad agency Ogilvy & Mather Worldwide Inc. when it was developing Barbie commercials for Barad. Later, for two years starting in 1985, Stein was in charge of Hot Wheels before leaving for Kenner and a series of other jobs. Now, Stein is glad to be back at Team Mattel. "It is a hungry culture," he says.

MOVIE MAVEN. To build Mattel's port- folio of boys' toys, Stein is forging links between Mattel and major sports leagues. One recent coup: snatching a license to market National Basketball Assn. toys from Hasbro.

This year, Mattel will introduce NBA action figures and board games, which Stein predicts will hit \$300 million in sales within five years. He's tapping



Stein has gone from archrival to Barad's No. 2. His mission: Beef up boys' toys



SPORTS FAN: Stein is planning NBA action figures—and a WNBA Barbie

girls' growing interest in team sports as well. Ready to ship is a WNBA basketball-playing Barbie, complete with ball and hoop.

Barad is also counting on Stein's knack for basing action figures on hit movies. While Stein was raking in profits for Kenner, Mattel was losing money on such misfires as *Hook* and *The Last Action Hero*. And Stein is on the prowl for new properties for Mattel to acquire. Sources close to the company say he may try to snatch Marvel Entertainment Group. Stein won't comment, but one source says he is working jointly with Sony Corp. to buy out the comic-book maker.

Wall Street is clearly pleased with his progress. Mattel's stock has soared since he signed on in August, 1996. Good reason for Jill Barad to keep this ex-Public Enemy No. 1 on her side from now on.

By Kathleen Morris in El Segundo, Calif.

BY GARY WEISS

THE GLARING CHINK IN KNIGHT'S IPO

An impending \$180 million public offering of Knight/Trimark Group has all the earmarks of a hot IPO. Underwritten by BancAmerica Robertson Stephens and other classy firms, the deal will bring public the holding company for Knight Securities in Jersey

City, N.J. Handling almost 10% of trading on the NASDAQ and over-the-counter markets—twice its market share a year ago (chart)—Knight has supplanted Herzog, Heine, Geduld as the NASDAQ king in just the past few months. It is also a rising star in “third market” trading of listed stocks.

But there's a time bomb in the prospectus: Knight CEO Kenneth Pasternak is in hot water with the Securities & Exchange Commission—not from anything at Knight, but because of alleged activities of subordinates at his former employer, Troster Singer, a unit of Spear, Leeds & Kellogg.

Pasternak's woes stem from the SEC's probe of alleged collusion among NASDAQ market makers. According to the prospectus, the SEC staff has told Knight that it intends to recommend to the agency that Pasternak be suspended for six months and assessed a civil penalty of \$50,000 for “failure to supervise with respect to several transactions of other traders under his supervision at Troster Singer.” Spear Leeds was one of 24 firms that settled antitrust charges with the Justice Dept. in July, 1996, without admitting wrongdoing, but the SEC's investigation of the firms and their traders has continued. Knight was not targeted or charged by the Justice Dept.

Pasternak, who was at Spear Leeds from 1979 to 1994, “intends to vigorously defend himself” against any charges that may be brought, the prospectus notes. Pasternak declined further comment, as did Carl Hewitt,

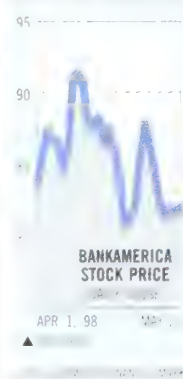
the Spear Leeds general counsel. One person close to the investigation notes that the recommended six-month suspension—a severe penalty—could merely represent a hardball bargaining position by the SEC. But if the agency sticks to its guns, the consequences could hurt Knight. Suspension of Pasternak, who has a reputation as a crackerjack trader, “would have a material adverse effect on the company's business, financial condition, and operating results,” says the prospectus.

BANKAMERICA'S 'WONDERFUL DEAL'

When the \$65 billion merger of BankAmerica (BAC) and NationsBank (NB) was announced on Apr. 13, Wall Street reacted without wild enthusiasm. It is strictly a stock deal, with both banks' shareholders getting shares in a new company. No big premium is to be paid. The Big Board-traded shares of both banks were bid up for a day or so, only to fall back toward earth. BankAmerica, trading at 86% the day before the merger and 91% after the announcement, is now below 85. NationsBank reacted similarly.

One seasoned investor in bank stocks, Dale Jacobs, disagrees with the Street's ho-hum attitude. Jacobs runs Financial Investors, which operates hedge funds that specialize in banks and other financial outfits. He thinks the company to be formed from the merger will be a big gainer. And not just in size—although it will be the biggest U.S. bank. “I think it's a wonderful deal,” says

HO-HUM REACTION FROM THE STREET



Jacobs. “Yet the stock has sold off dramatically, and I can't tell you why.” He notes that combining the two banks will bring genuine synergies and cost savings and that the joint company will have a great management team headed by NationsBank CEO Hugh McColl.

Jacobs feels that the Street's cooling of interest could represent a stellar buying opportunity for investors who couldn't put in their buy orders when the deal was still hot.

Jacobs would play the merger by

buying BankAmerica stock. Once the merger goes through, its shareholders exchange their stock, at about a one-for-one ratio, for stock in the new bank. He notes that BankAmerica stock trades at a price-earnings ratio, based on projected earnings, of 30% below the average for the Standard & Poor 500-stock index. The discount, in his view, is unjustified by the company's growth prospects.

Jacobs feels that the new company should trade at the market's price-earnings ratio—50% higher than now—once institutions catch on.

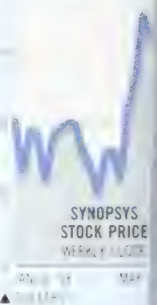
CHIPMAKERS COUNT ON SYNOPSIS

Computer-chip makers have been moving target: for consumers, investors—and suppliers. Innovations are constant, a fact well-known at Synopsys (SNPS) in Mountain View, Calif. It supplies software to chipmakers, and its NASDAQ-traded stock has been a winner. Spurred by higher-than-expected earnings, the price has climbed 16% so far this year. Is it time to turn profits? Not a chance, says Guy Elliffe of Jurika & Voyles, which manages \$1 billion in institutional holdings.

Elliffe thinks Synopsys' growth is only beginning. For one thing, he says, the company is well-placed to cash in on chips' increasing complexity. Its clients include Texas Instruments and LSI Logic, which it has hooked by such gizmos as its “PrimeTime static timing verification and sign-off” tool. Synopsys is also pioneering software for makers of ultra-sophisticated “system-on-a-chip” semiconductors, which are all the rage in chipland.

With spanking-new software coming down the pike, earnings are on the march. The company reported earnings of \$25.5 million, or 18¢ a share, on revenues of \$170 million in the quarter ended Mar. 31, and Elliffe forecasts \$1.90 in the year ending Sept. 30. He feels the stock, now at about 41, could hit the mid-50s in a year or so.

A BOOST FROM HOT EARNINGS





the currency.
the market.
the global bank

Euro-Ready.

Managing Your Euro Evolution

Introduction of the European single currency will reduce risk and simplify business transactions. But the transition will be a challenge.

Bank of America is ready. Our integrated global banking system and worldwide presence make us one of the only major banks with a proven, superior payments platform already in place. Which means your payments and liquidity management can run smoothly and effectively.

As a global bank, we deliver the cash management, treasury, and capital raising capabilities your business will require through the transition – and beyond.

That's power in motion. That's Bank of America in motion.



© 1998 Bank of America Corporation

Bank of America

www.bankamerica.com

power
in motion.™

Remaking SCHWAB

As commissions fall and investors crave advice, the discount broker bets big on the Web

Quick. Which stock performed best in the bull market of the 1990s: Microsoft, Intel, or Charles Schwab? If you picked either of the dynamic duo of high tech, you guessed wrong. Schwab left both in the dust. A dollar invested in Microsoft at the start of 1991 grew to a little more than \$15 by the end of 1997; Intel, a little less. But during the same period, a dollar put into the discount brokerage firm blossomed into \$39.

The rising tide of a bull market lifts all securities firms, but no firm rode the bull like Schwab. Customer accounts more than tripled, customer assets swelled tenfold, revenues jumped by a factor of six, and best of all, net income rose nearly fourteenfold (charts).

But 1998 is unfolding as a different story. Competition from both deep-discount Internet brokers and full-service investment firms is keener than ever. Commission rates are collapsing while expenses are surging.

True, judged by what's coming through the doors, the Schwab juggernaut has lost none of its momentum. In the

first quarter, 358,000 new accounts were opened, bringing total to 5 million, and customer assets climbed \$55 billion, billion of which is new money—and now is over \$400 billion. But here's the bottom line: Revenue growth slowed to 13%, profit gains to just 2%. The stock, now at 35, is down more than 20% from its all-time high of 44, and it's the only brokerage stock with negative returns this year.

Over the past two years, daily trades have jumped 6% to 85,400, but commissions income is up only 23%. Now, commissions make up 49% of revenues, vs. 53% in 1995. "We can't build a business on trading anymore because that service is a commodity," says Susanne D. Lyons, president of Schwab's Specialized Investor Services unit.

NO PROTOTYPE. Is the Schwab era about to end? In some sense, yes. The old Schwab that catered to the investor who knew exactly what they wanted is disappearing. What is emerging is Schwab II, shaped by the explosive growth of Internet trading and the mounting demand from investors for help and advice on where to put their money.



SIGNING UP CLIENTS

CUSTOMER ACCOUNTS



GATHERING ASSETS

CUSTOMER ASSETS



BUILDING REVENUES

REVENUES





“We’re going to integrate the Internet completely into the Schwab organization”

— CHARLES SCHWAB,
Chairman & co-CEO

The Schwab team is striving to build a brokerage firm for which there is no prototype. “Schwab has got to become a full-service brokerage firm,” says David S. Pottruck, president, co-CEO, and heir apparent to Chairman and co-CEO Charles R. Schwab, now 60. “But we’re not going to become another Merrill Lynch or Dean Witter.” Schwab doesn’t plan to spoon-feed investments to its customers. But a strategy built around the Internet, the company aims to help investors to feed themselves. “Our mission,” says Schwab, “is to coach people on investing.” Schwab’s full-service competitors point out that investors also suffer from too much information and too little time—and what will keep people coming to the full-service firms. “We need help in sorting out the information and figuring out what it means for you,” says Jay Mandelbaum, senior managing director at Salomon Smith Barney. And John L. Steffens, chairman of Merrill Lynch & Co., argues that while the bull market has made it easy for investors to fend for themselves, they will seek Merrill’s advice when times get tougher. Not

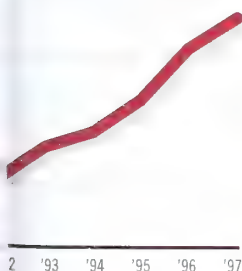
that business is bad now. Both firms have been signing up customers at the rate of more than 30,000 a week.

Schwab is banking that more attention and service will keep customers from bolting. That’s what often happens as investors age, grow wealthier, and have larger and more complex portfolios. The average age of a Schwab customer is 47, vs. 57 for the full-service firms, and the challenge will be to keep older ones in the fold. Last year, 35,000 accounts left Schwab for full-service, or what Pottruck calls “full-cost” firms. True, 60,000 came in from those firms, but it burns the competitive Pottruck to lose even one. That’s why Schwab developed AdvisorSource, a network of 425 independent money managers. This way, clients who want advisers can get them, but the assets remain at Schwab.

For the take-charge types, Schwab offers enhanced services. Those who make at least four trades a month and maintain \$50,000 in their account qualify for the Schwab 500 Active Trader service. Two monthly trades and \$25,000 get customers into Schwab Select service. There’s no trading

MAKING MONEY

NET INCOME
MILLIONS OF DOLLARS



BUT THIS YEAR...

DATA: CHARLES SCHWAB,
BLOOMBERG FINANCIAL
MARKETS, DOW JONES, BW

THE PRESSURE BUILDS

AVERAGE COMMISSIONS FALL

-13%

REVENUE GROWTH SLOWS

13%

EXPENSES JUMP

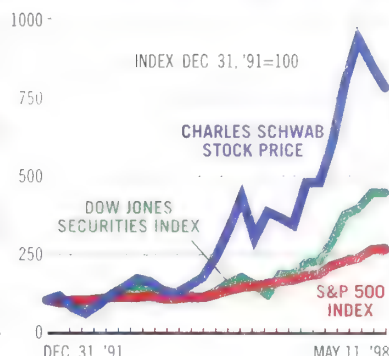
16%

AND PROFIT GROWTH DROPS

2%

PERCENT CHANGE 1ST QTR. 1998 VS. 1ST QTR. 1997

SO THE STOCK SLUMPS





“Schwab has got to become more of a full-service brokerage firm”

— DAVID POTTRUCK
President & co-CE

requirement for Priority service, just \$500,000 in assets. Those with \$1 million get the Priority Gold treatment.

With these services, clients don't get personal brokers, but each is assigned to a small team in one of several national call centers with which he or she can plot a strategy for a large trade, discuss the merits of an investment idea, exercise stock options, or get a referral to an estate-planning attorney. “Your team is your concierge,” says Lyons.

Finance

Increased help and advice is the strategy that Schwab is using to build customer assets. And at Schwab, the key to profitability is gathering those assets, not trading them frequently. Schwab's customer representatives are salaried, not commissioned, and incentive bonuses to branch staff are paid based on asset growth and the quality of the customer service provided.

The bigger the asset base, the less dependence the firm will have on commissions where competition is cutthroat. From the asset base, the firm can make money from margin lending, customer cash balances, and mutual-fund servicing fees.

Schwab insists his firm can remake itself without getting swept up in the merger mania engulfing the brokerage business. “I have no interest in participating in these megamergers,” says Schwab. “What for? We don't need anybody else's capital, and we don't need anybody else's technology, and we already have a national brand name.” He sold Schwab to BankAmerica Corp. in the early 1980s, only to buy it back and take it public in 1987. He does not rule out making an acquisition “if it would enhance customer service.”

Schwab says the firm can benefit from the merger wave without becoming part of it. “Those mergers are about cost-cutting and balance sheets and capital,” he says. “They're not about serving the customers.” The founder's opinion counts plenty. He owns 20.2% of the stock, worth \$1.9 billion. An employee stock option plan has an additional 8.6%. Other employee holdings bring total inside ownership to around 40%.

Schwab II is a far cry from the novel idea Chuck Schwab had when he started the firm in the depths of the 1970s bear

market. Investors were angry with their brokers, who were not only handing out bad advice but also were charging high fees. Schwab positioned the firm as the un-broker. His goal was to give top-notch service but not push products or make recommendations on which stocks to buy. That worked well during the 1980s as the bull market took off. Even 10 years ago, says Pottruck, nearly all of Schwab's new customers had had at least two years of investing experience.

“WARM CALLS.” But in the 1990s, customers arrive at Schwab's doors who didn't know a stock from a bond or even alone a mutual fund. Rather than turn them away, Schwab slowly moved into the advice business, plying newcomers with asset-allocation planners and investment tool kits, and offering them a select list of outside mutual funds that could be purchased through the no-fee OneSource program.

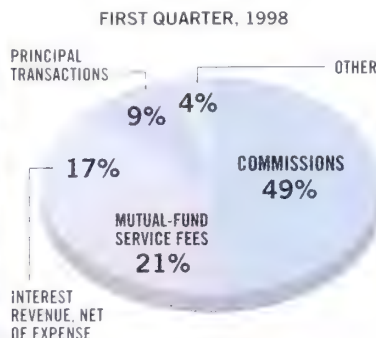
Schwab has even crossed some lines into what was once a taboo. It now has proprietary products that carry the Schwab name, like a series of asset-allocation and index mutual funds. But here, too, Schwab differentiates its product from the house-brand funds at full-service firms: Schwab funds have lower management fees and levy no loads or sales charges. And, unlike most other brokerage funds, the Schwab equity funds are either index portfolios or funds that invest in other managers' funds.

Another change in the Schwab culture: Customers no longer had to tell a Schwab broker “don't call me, I'll call you.” Now the firm makes “warm calls.” If you ask for an account application, but don't fill it out, you'll get a phone call to see if you have questions or need assistance. Schwab is also testing software that will identify accounts where activity seems to have stopped, or cash has built up. “That could be a sign an investor is confused,” says Pottruck. In the future, such customers might get a call to see if he or she wants help.

Then there's the red-hot frequent trader Joe Parascandol of Holmdel, N.J., 12 miles from that on a day the stock market was taking a dive, one of Schwab's 500 team reps insisted his wife rouse him from his sickbed. “I had several hundred index options and they collapsed from \$15 to \$3 a day,” says Parascandol. He owns a printing business.

HOW SCHWAB MAKES ITS MONEY

DATA: CHARLES SCHWAB & CO.



INTERNET ADDRESS DIRECTORY

these Business Week advertisers on the Web:

[Dana Commercial Credit](#)
[www.dana.com/dcc](#)
DataWorks
[www.dataworks.com](#)
Datek Online
[www.datek.com](#)
Digital PC
[www.windows.digital.com](#)
Diners Club International
[www.dinersclub.com](#)
J.D. Edwards & Company
[www.jdedwards.com](#)
Ericsson
[www.ericsson.se](#)
Equitable/AXA
[www.equitable.com](#)
E*TRADE
[www.etrade.com](#)
Exide Electronics
[www.exide.com](#)
Federal Express
[www.fedex.com](#)
Fidelity Investments
[www.fidelity.com](#)
FileNET
[www.filenet.com](#)
FlexiInternational Software
[www.flexi.com](#)
Ford
[www.ford.com/](#)
Founders Growth Fund
[www.founders.com](#)
Fujitsu
[www.fujitsu.com](#)
Fujitsu PC Corporation
[www.fujitsu-pc.com](#)
Gateway 2000
[www.gateway.com](#)
General Motors
[www.gm.com](#)
General Motors-OnStar
[www.onstar.com](#)

GTE
[www.gte.com](#)
Hammermill
[www.hammermillpaper.com](#)
Hewlett-Packard
[www.hp.com](#)
Hilton Hotels & Resorts
[www.hilton.com](#)
Hitachi
[www.hitachi.com](#)
Hoechst
[www.hoechst.com](#)
Honda
[www.honda.com](#)
Hyatt Hotels Corporation
[www.hyatt.com](#)
IBM
[www.ibm.com](#)
Intel
[www.intel.com/](#)
International Institute for Management Development
[www.imd.ch/](#)
International Paper
[www.ipaper.com](#)
Invesco
[www.invesco.com](#)
Iomega
[www.iomega.com](#)
ITT Hartford
[www.itthartford.com](#)
Kinko's Corporate
[www.kinkos.com](#)
Lawson Software
[www.Lawson.com](#)
Lexus
[www.lexus.com](#)
Lincoln-Mercury
[www.lincolnmcury.com](#)
Lotus
[www.lotus.com](#)
Lucent Technologies
[www.lucent.com](#)
Lufthansa
[www.lufthansa-usa.com](#)
MCI
[www.mci.com](#)
Mercedes-Benz
[www.usa.mercedes-benz.com](#)
Merrill Lynch
[www.ml.com/](#)
Microsoft
[www.microsoft.com/](#)

Mitsubishi Electronics America, Inc./Electronic Device Group
[www.mitsubishichips.com](#)
Mitsubishi Motor Sales of America
[www.mitsucars.com](#)
MOVADO
The Museum Watch
[www.movado.com](#)
NCR
[www.ncr.com](#)
Network Associates
[www.nai.com](#)
Norfolk Southern
[www.nscorp.com](#)
Nortel
[www.nortel.com](#)
Northrop Grumman
[www.northgrum.com](#)
Northwest Airlines
[www.nwa.com](#)
Oracle Corporation
[www.oracle.com](#)
PeopleSoft
[www.peoplesoft.com](#)
Praxair
[www.praxair.com](#)
QAD Inc.
[www.QAD.com](#)
QUALCOMM
[www.qualcomm.com/cdma](#)
Roberts Express, Inc.
[www.roberts.com](#)
SAP
[www.sap.com](#)
SAS Institute
[www.sas.com/](#)
Savin
[www.sales@savin.com](#)
Charles Schwab
[www.schwab.com](#)
Seagate
[www.seagate.com](#)
Siemens Corporation
[www.siemens.com](#)
Siemens Microelectronics
[www.smi.siemens.com](#)
SkyTel
[www.skytel.com](#)

Sprint
[www.sprint.com](#)
StorageTek
[www.storagetek.com](#)
Sun Microsystems
[www.sun.com](#)
Sybase
[www.svbase.com](#)
Symantec
[www.symantec.com](#)
Symbios Logic
[www.symbios.com/bw.htm](#)
Texas Instruments
[www.ti.com](#)
TIBCO
[www.tibco.com](#)
Tivoli
[www.tivoli.com](#)
Toshiba America Information Systems
[computers.toshiba.com](#)
Toyota in America
[www.tovota.com/usa](#)
Toyota Motors
[www.tovora.com](#)
T. Rowe Price
[www.troweprice.com](#)
Unisys
[www.unisys.com](#)
United Technologies
[www.utc.com](#)
UPS
[www.ups.com](#)
US Airways
[www.usairways.com](#)
USPS Priority Mail
[USPS.supplies.gov](#)
US Web
[www.usweb.com](#)
UUNET Technologies
[www.uunet.net](#)
The Vanguard Group
[www.vanguard.com](#)
Visteon
[www.visteonet.com](#)
Visio
[www.visio.com](#)
Xerox
[www.xerox.com](#)

BusinessWeek

[www.businessweek.com](#)

[hyatt.com](#) click, click you're here!



Find the Hyatt Travel



800 726 2700 / www.isuzu.com

RAND MCNALLY, PLEASE STAND BY FOR REVISIONS

To coax the world to give up its last hiding places, we introduce the completely reinvented Isuzu Rodeo. Beyond its bold new styling, inside and out, the Rodeo is equipped with a 5-link suspension and a more powerful 205 horsepower V6 engine — all designed to let you blow through terra incognita.

THE NEW 1998 RODEO.

Available with a 5-Speed Manual or 4-Speed Automatic



ISUZU

Go farther.

of that call, I got out
and I saved \$75,000
00,000." He thinks
b's team service beats
e-on-one approach at
Lynch, where he has
ll account. "It's like
g eight pair of eyes
g for me," he says.

mass of Schwab
, though, will have to
their own eyes. For
ickers, the Analyst
on the Schwab Web
zals what many stock-
s have on their desks:
ny and industry re-
ports from Stan-
& Poor's Corp.; earn-
recasts by First Call
data on corporate in-
trading from Vickers
price and volume

by BigCharts; interviews with executives and industry
s from Briefing.com; and news stories from Dow Jones
Schwab now delivers Web users some reports for free
right cost a few dollars if ordered by mail or phone.

ACCESS. Customers in the Schwab 500 and Priority ser-
vise have access to their own Web pages, including a pow-
erful tool called Stock Screener, which allows users to
own stocks according to a myriad of different criteria
s stock-price performance, earnings expectations, mar-
pitalization, or sectors and industries. Other perks in-
access to initial public offerings and online interviews
op executives like Intel Corp.'s Andrew S. Grove and
computer Corp.'s Michael S. Dell.

this data is generated elsewhere, and Schwab collects
livers it. One thing you don't get from Schwab is an op-
inion on a particular company. That's the stock-in-trade
service brokerage firms, and *verboten* at Schwab.

Swab is beefing up its advisory services for mutual-
vestors, who hold about \$131 billion in funds at the
ate last year, Schwab hired Mark W. Riepe from in-
ent consultant Ibbotson Associates to head up the
s Schwab Center for Investment Research. The in-
think tank tackles such questions as what are the
o follow in deciding whether to sell a fund and what
is to performance after funds close to new investors.
e is also studying such questions as what's the impact
nd of getting tapped for the Schwab Mutual Fund Ses-
st. Making the quarterly list can lead to huge inflows
wamp a fund and undercut the reason for which it
lected. "Is it the dollar value of the assets that go in, or
ount of assets relative to size of the fund?" asks
"We're still trying to nail that one."



**“We have the
technology and
information to
open up the
black box of
investing”**

— SUSANNE LYONS,
President of Specialized
Investor Services

The Select List runs about 90 funds, a mix of domestic and international equity, asset allocation, and bond funds. Most, but not all, are in the no-fee OneSource program. The current list includes offerings from rival Fidelity Investments and even has several Vanguard index funds that compete head-on with Schwab products. Other information available to investors includes a one-page Mutual Fund Report Card on about 7,000 funds, highlighting performance, risk, ratings, and expenses. And this month, Schwab will introduce a customized one-page Mutual Fund Performance Snapshot that compares all the funds held by an investor with market indexes and other funds in the same peer group.

In reshaping the company, the branches—now 274—have been revamped in look and in mission. Gone are the teller-like counters for transactions, replaced with desks and private conference areas for meeting customers. Call the local branch, and you are switched through to one of five national call centers where much branch-like business can be handled by an automated line or rep—a trade, a request for a prospectus, or a question about an account. Customers can also ask to talk to an individual at the branch, but most queries never go that far.

That frees up time for branch reps to discuss with investors such topics as financial planning, mutual-fund selection, or the pros and cons of variable annuities. Over the last several years, reps have been replaced or retrained as the job has been upgraded from order-taking to help and advice. Reps are also encouraged to develop a specific field of expertise, like retirement planning, fixed-income investing, or insurance, which Schwab also sells.

Stocks, bonds, or funds, Schwab's strategy relies on moving

Finance

Schwab's Web Section

ADVICE

Written and online tools to help investors set up asset allocation plans and choose stocks and mutual funds. Customers can also sit down with representatives at branches for more personal help.

INTERNET

Encourage clients to make use of schwab.com, the company's Web site, for advice, research, and account servicing as well as transactions. Offer seminars to familiarize investors with online resources.

SERVICE

Offer personalized services to customers depending on how frequently they trade or by the amount of assets held at the company. Assign higher-end clients to teams of service representatives.

REFERRALS

Customers who want investment advisers can get referrals to Schwab-screened money managers. Those with more complex needs like estate planning can also get leads on outside experts.

as many of its customers as it can onto the Internet. The more they go online for routine business—checking balances, requesting quotes, or making trades—the less the staffing needs at service centers and branches. On that score, Schwab starts with a solid base: 70% of customers own PCs, and 50% have Net access. About 29% of total accounts are online, and 300,000 of the 500,000 new customers who joined since January are also online.

PRIVATE CLASS. To speed the move to the Web, Schwab is putting Net-linked PCs in branches and offering training sessions. One branch manager even gave an in-home session to a customer who wasn't able to make the classes. The company has also increased Web-trading capacity. Arthur V. Shaw, senior vice-president of electronic brokerage, says the Web system has already experienced several days when online trading exceeded that on Oct. 27, 1997, the day of the stock market's minicrash. It's a relevant comparison: Online customers of Schwab and others complained about inability to gain access to Web sites or execute trades that day.

Clients remain free to contact Schwab by other means. One criticism of its earlier Web service, e.Schwab, was that all contact had to be online, and phone calls or branch visits cost extra. That service has since been folded into Web trading.



“The challenge is to make the branch and the Web a seamless experience”

— ARTHUR SHAW
Senior Vice-President
Electronic Brokerage

The more customers migrate to the Web, the less pressure the company will face on brokerage rates. Schwab's charge for Internet trading—\$29.95 for trades up to 100 shares and an additional 3¢ a share after that—is expensive by Net standards. In fact, it's six times higher than the cheapest online discounters. “Others charge less, but I trade daily or even weekly,” says Schwab customer James Willis, an automotive engineer from Frankenmuth, Mich. “The breadth of the information and the ability to talk to someone is worth a few dollars more.”

Indeed, for millions of Schwab clients, \$29.95 is still far

ABCDEFGHIJKLMNOPQRSTUVWXYZ

It will be a glorious day when all letters receive equal treatment, whether printed, faxed, copied, or scanned.

standard commission rates. Right now, purchasing shares of \$40 stock would cost \$103 in commissions in a broker or through telephone reps, and \$93 if ordered through a broker or using StreetSmart, a pre-Web online system. Schwab says that the company has bitten the bullet on commission rates—and shouldn't need to go any lower. If the rate cut spurred usage, Web trades now account for half of all Schwab trades, vs. 37% last year. Schwab is the largest online broker, with 1.5 million accounts and 67% of the daily trading and 67% of all online assets.

BEHIND. But even if rates hold steady, the Web is a here standing pat means falling behind. In the first rankings, Schwab ranked 7th out of 52 sites by Gomez Advisors, which rates Internet brokerage sites. But in second rankings, Schwab dropped to 20th out of 69. "New and site redesigns have raised the bar," says Alexander of Gomez Advisors. What's more, the fuller-service brokers like Quick & Reilly and Fidelity Brokerage Services earn higher ratings than Schwab for their Internet sites.

Schwab's Web service earns its highest ratings on "customer confidence." But it does not fare as well in "ease-of-use" and that's critical if the company is going to get more use out of it. Webmeister Shaw takes issue with the criticism schwab.com is by far the Net's most active website. "Part of our Web experience is, if you have a problem, you can get service and support right away," says Schwab. "But we're always trying to improve the ease of use." Schwab is planning to redesign the opening pages with "clearer pathing" to the services they want.

Schwab succeeded in planting a new sort of firm in a market that's polarizing between deep-discount and full-service. Daniel O. Leemon, Schwab's chief strategy officer, argues that demographics and technology will help make it

happen. Of some 30 million U.S. households which have brokerage accounts, says Leemon, about 12 million are "delegators"—those who want to offload the investment chores to others—and 3 million are largely self-directed. But in the middle are 15 million households, what Leemon calls the "validators," these are people who know what they want, but at times need some information or advice to confirm it.

Validators usually turn to full-service firms to get that support. But Leemon thinks Schwab can win over some of the validators' business with the right mix of information, advice, and technology, and says extensive customer research bears this out. "Where we're going," he says, "is the direction in which our customers are leading us."

Certainly, Schwab has ample resources with which to pursue its new strategy: a strong foothold on the Net, a young customer base, a branch network, and high brand-name recognition. It also plans to boost its ad budget by more than 20%, to over \$100 million this year, and recently hired a new agency to promote retail brokerage. And it spends about 13% of revenues on technology. But the competition's getting keener, too, and not just from the big Wall Street firms. Privately held Fidelity Brokerage Services competes for the same customers as Schwab. And a few rivals recently hooked up with deeper-pocketed parents: Quick & Reilly with Fleet Financial, and Jack White & Co. with the Waterhouse Investors Services division of the Toronto Dominion Bank.

Chuck Schwab believes he can harness the power of the Net to create a firm that delivers the kind of advice and services investors want. Considering his record as an innovator and judge of what investors really need, it would be foolish to bet against him.

By Jeffrey M. Laderman in San Francisco

Finance

A

Laser print

A

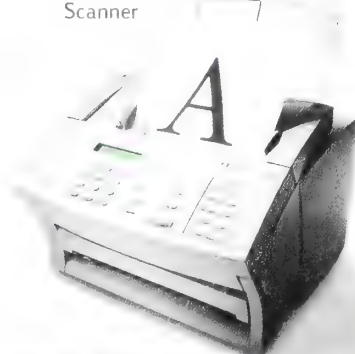
Laser fax

A

Laser copy

The All-in-One HP LaserJet 3100

Laser Printer
Laser Fax
Laser Copier
Scanner



sharpness, clarity and precision of HP LaserJet technology is now available in an all-in-one unit. HP LaserJet 3100 gives you professional, 600 dpi black and white documents at impressive speed. It even performs multiple tasks simultaneously. All with the dependability you'd expect from Hewlett-Packard. Priced around \$699*. For more information visit www.lj3100.com



HEWLETT
PACKARD

Expanding Possibilities

EDITED BY AMY DUNKIN

ONLINE BROKERS: DO YOU GET WHAT YOU PAY FOR?

Those TV commercials and print ads for Internet stockbrokers are enough to make a bargain-minded investor do a double-take. Stock trades for \$7! No commission for trades of more than 1,000 shares of any NASDAQ stock! Wow, where do I sign up?

Before you fire your previous broker, you might ask a few questions: Can I really get good service for less than my stockbroker spends on cigars? The answer: It depends. If you're a savvy investor who chooses your own stocks, bonds, and mutual funds, then switching to an E-broker can generate tremendous savings over what you've been paying a traditional discount broker, let alone one of the big Wall Street firms that prefer to deal face to face. As brokers work hard to expand their online product lines, odds are you'll get even more for your money. While online brokers once dealt only in stocks and a few mutual funds, established discounters, including the likes of Charles Schwab, Quick & Reilly, and Jack White have since significantly broadened their online offerings to include bonds, American Depositary Receipts, options, and even initial public offerings.

But online trading isn't for everyone, particularly anyone who enjoys the hand-holding a pro can provide. Even if you do sign on with a cyberbroker, be prepared to suffer through glitches and growing pains. Behind the brokers' cheap commissions are plenty of

hidden fees, periodic service outages, spotty phone support, and, in some cases, clunky sites that make it difficult to confirm if, when, and at what price a trade went through. If you're a bargain-lover like me—my wife, Lisa, and I have online accounts at

Ameritrade Schwab—those acceptable trade-off commissions that have fallen by half over the past year and now average about \$16. Industry insiders say a trade costs an online broker about \$5, leaving plenty of room for profit. Unlike their traditional brethren, E-brokers earn another \$5 to \$10 on some NASDAQ trades from “paying for order flow”—a small kickback for routing your transaction to a market maker. In the average online investor tends to be a risk-taker, some brokers supplement their income with a markup. For less than \$0.01, Quick & Reilly's margin rate is 10 percent above the industry mark broker rate, which is currently 7.25 percent even here, but are bargains elsewhere. FarSight is a half-point low call.

To keep costs down, a nurse cut-rate cybers charge extra for customer service that brokers used to provide courtesy. If you want to transfer a foreign stock into your account at Barnes Investment's investor service, that'll cost \$75. When I mislaid a lot of trade confirmations last January while preparing my taxes, I called Ameri-



INVESTING

The Lowdown on Trading Online

BROKER/INTERNET (HTTP://) /PHONE	COMMISSION* MUTUAL FUNDS/FEE**	COMMENTS
AMERITRADE www.ameritrade.com 800 669-3900	\$8 7,000/\$0-18	Dirt-cheap commissions, but next to no research.
BROKERAGE DIRECT www.discoverbrokerage.com 800 347-2683	\$14.95-19.95 3,500/\$0-25	Slick site can be customized. Sophisticated charting and real-time data.
CHARLES SCHWAB www.schwab.com 800 435-4000	\$29.95-89.95 1,500/\$0-35	If Web is down, backup service includes 24-hour brokers, branches, and phone help. Big customers get IPOs from Salomon Smith Barney.
DLJDIRECT www.dljdirect.com 800 825-5723	\$20-60 6,000/\$0-35	A \$100,000 account gives you access to DLJ research and IPO's.
E*TRADE www.etrade.com 800 786-2575	\$14.95-19.95 3,500/\$0-24.95	Research from Briefing.com and BancAmerica Robertson Stephens.
JACK WHITE www.jackwhiteco.com 800 216-2333	\$25 6,700/\$0-24	Broad product menu includes innovative matching service, albeit only for San Diego companies at this time.
LINDNER.FARSIGHT www.lindnerfunds.com 800 830-7483	\$7 6,500/\$0-7	Cheapest commissions, low margin rates. Beware the exit fee for IRAs. Lets you pay your bills online.
NET INVESTOR www.netinvestor.com 800 638-4250	\$19.95-49.95 3,000/\$35-60	Sophisticated account data. Easy access to live brokers, but hidden fees can add up.
QUICK & REILLY www.quick-reilly.com 800 837-7220	\$14.95-19.95 2,600/\$0-25	Strong research. Broad menu includes ADRs, junk bonds, and options.
SURETRADE www.suretrade.com 212 566-2031	\$7.95 2,600/\$0-25	Quick & Reilly's deep-discount sibling requires no minimum balance, offers free IRAs.
WEB STREET SECURITIES www.webstreetsecurities.com 800 932-8723	\$14.95 3,800/\$25	For \$50 a month you get NASDAQ quotes showing tick-by-tick prices and pending orders from market makers. No fee on NASDAQ trades of 1,000 shares or more.
WATERHOUSE www.waterhouse.com 800 555-3875	\$12 6,600+/\$0-25	A lot of service and few hidden fees, but \$45 commission for phone orders is steep.

*Some firms advertising flat commissions still assess an extra charge for trades over 1,000 or 5,000 shares.

**Transaction fee in addition to any loads. Some brokers charge no transaction fee for certain funds, although their management fees may be higher to compensate.

lp. My old \$35-
e discount bro-
at Waterhouse
always willing
k up the miss-
data while I
d. But Ameri-
s service rep
e it had a \$60-
r research fee,
\$5 for every
slip I want
d to me.
el Anderson,
ent of Ameri-
says the firm
provide one con-
cion for free.
given our focus
ng efficient, to
to stop to pull
somebody's
rds — we'll
e for that."

e moral: In-
about a firm's
chedule, which
usually be un-
ded from deep
its Web site.
ed up digging
old confirma-
out of my own

m missions
full-service
rs have justi-
their steep fees
st for their ad-
but also for
ability to
" trades of
cap stocks by
g a market
willing to buy
ll a stock be-
the bid-ask
d. Savings on
rades, they ar-
could more
ustify the dif-
e in commis-
No more.
atory reforms

improved the odds that
get just as good an ex-
n through an E-bro-
or any other dis-
er—as through a
vice firm like Merrill
. Already, spreads on
Q stocks have fallen by
erage of 30% over the
3 months. The prospect
shift in coming years
fractional to decimal-

based price quotes could cut
costs even further.

Thanks to the reforms,
trading experts now say that
any investor who places a
"limit order" specifying a set
price between the bid-ask
spread is far more likely to
have it filled. "As long as
you're able to enter a limit
order, it shouldn't matter
whether you trade through

an online or a full-service bro-
ker," says University of
Chicago Visiting Associate
Professor Paul Schultz, whose
research led to many of the
NASDAQ reforms.

But with customer rolls
growing so rapidly, E-brokers
admit it's hard to stay ahead
of demand. Ameritrade at-
tracted 73,000 new customers
in the first quarter alone.

Says President An-
derson: "It's all I can
do to write purchase
orders for enough
new servers." Still,
online trading can be
a risky proposition
for options fans and
anyone else needing
100% reliability.
"The online industry
has been cursed
with success," says
consultant Julio
Gomez, whose
Gomez Advisors
(http://www.score
card.com) rates on-
line brokers. Gomez'
current top three fa-
vorites: DLJDirect,
E*Trade, and Wa-
terhouse.

Indeed, E-brokers
fall short on reliabil-
ity. Despite their
claims that you can
trade around-the-
clock and from any-
where, most online
brokers have been
unable to keep up
with demand on
volatile days like last
Oct. 27, when the
Dow Jones industrial
average plummeted
554 points and trad-
ing volume on the
New York Stock
Exchange exploded.
While E*Trade,
Schwab, and other
brokers claim they
were able to process
every order that got
through, they con-
cede that thousands
of customers couldn't
get through—they
were unable to log
on or even get
someone to answer
the phone. The out-

ages persist: Schwab was
down for as long as four
hours on Apr. 20, and Fide-
lity Investment's online sys-
tem failed briefly after the
Dow broke 9,000 for the first
time on Apr. 3.

Most large brokers have re-
sponded to these glitches by
dramatically boosting their
ability to handle new business.
Ameritrade has tripled its ca-

Personal Business

capacity recently, and some, including Discover Direct and E*Trade, are installing "fault-tolerant" systems that are better equipped to juggle demand if a single server fails. Waterhouse has gone one step further: It disconnects visitors to its Web site after 10 minutes of inactivity, freeing up the site for other customers.

For all its growing pains, Internet trading is likely to be the wave of the future. Already, E-brokers are working feverishly to steal as many of the full-service brokers' remaining advantages as possible. DLJDirect, Schwab, and

E*Trade have started letting selected big customers in on initial public offerings that were once accessible only through full-service brokers. E*Trade says it will soon roll out electronic bill payment and debit cards—a move that may be intended to strengthen financial ties to customers and dissuade them from bolting for a cheaper commission.

The next frontier is Wall Street's most cherished possession—its original research on stocks and other instruments. E*Trade has begun providing, on a limited basis, some research from

BancAmerica Robertson Stephens, and DLJdirect customers with large accounts can get proprietary DLJ research previously reserved for full-service clients—for a fee.

24-HOUR MATCHING. E-brokerage executives boldly predict that in the future they'll keep revolutionizing trading—slowly cutting out not just traditional brokers but market makers and other middlemen with automated matching services that operate around the clock. "A major transition is under way," says Jack White, founder of

the online brokerage firm the same name. Last year, Jack White launched a service that lets prospective buyers and sellers of shares in small companies around San Diego—the brokerage's headquarters—name the price they'll accept. One day, the firm's software sweeps through and executes matches for a mere \$5, saving both parties money. Even the investing public's affair with online trading, such innovations are threatening to turn full-service brokers into a thing of the past. *Dean In*

SMART MONEY

E-TRADERS' STOCKS ARE A GOOD BET

Given the popularity of online trading and the astounding run-up in Internet

stocks, you might have expected shares of online brokers to have doubled or tripled this year. But the

Schwab, by far the largest online broker is down 17% through May 11.

Why the retreat? Fierce competition and rampant price-cutting are scaring investors off. But this could actually be a good time to buy. The price-cutting may be waning, and online brokerages still have huge profit potential. In fact, Internet stock trading is booming. The number of online accounts more than doubled last year, to over 3 million. Forrester Research, a Cambridge (Mass.) technology re-

telephone. The number of E-brokers grew to 70 from roughly 30 in the past year. But the average commission at the top 10 brokers fell from \$53 in the first quarter of 1996 to \$16 by the fourth quarter of 1997, says Piper Jaffray.

Now, commissions are stabilizing, at least among the top discount brokers. As the price war wanes, the emphasis is on strengthening brands—the strong suit of the big-name online brokers. "This is a marketing game," says James Marks, who cov-

gets a "hold" because of the high valuation relative to growth (table), even though it's "in by far the strongest position," says Marks.

Bill Burnham, who co-owns E-commerce for Piper Jaffray, also thinks brand loyalty is the driving force. "If you believe in the long-term trend, I recommend basket play"—buying all three, on the theory they'll gain equally from the shift to Web transactions. Compared with other Internet plays, the stocks are "incredibly reasonable," Burn-



stocks of the few publicly traded online brokers are all well below their 1997 highs. E*Trade Group, the No. 2 online brokerage, is up only 3% this year. Ameritrade Holding spent \$34 million in the past two quarters on advertising that helped double its accounts—but its stock is up only 6%. Charles

search firm, predicts 14.4 million accounts by 2002.

Online competition is cut-throat because this form of trading is cheap to offer. Electronic brokers have used the savings they generate to keep commissions low and grab business from conventional brokers who still operate face-to-face or over the

ers all three electronic brokerage stocks for Credit Suisse First Boston. He rates Ameritrade a strong buy, largely because of its high rate of account growth. E*Trade gets a lesser "buy" rating because it "strayed from what made it successful" by not promoting its low price enough. And Schwab

ham says, with forward price-earnings ratios in the mid 30s.

One thing to consider: This trio is apt to drop if the stock market falls. But with the Internet coming the tool of choice for do-it-yourself investors, E-brokers are a good term bet. *Amey*

The Market for Online Brokers

COMPANY	STOCK PRICE*	P-E RATIO**	COMMENT
AMERITRADE (AMTD)	\$31	506	\$8 trades and huge ad campaign doubled accounts in six months
E*TRADE (EGRP)	23.75	38	Online pioneer is expanding services, not dropping prices
CHARLES SCHWAB (SCH)	34.69	28	The biggest online broker, but that's just half of its business

* May 11 **Estimated 1998 earnings. DATA S&P 500 STOCK BLOOMBERG FINANCIAL MARKETS BUSINESS

ould have
at shares
ox Hill
ems, a
r of data
r a g e
ces, for

n last fall in
hattan comi-
tial public
g. Today,
the stock is
g hands for
n \$10.

that sound
steal? If it
you're not
thinking so.
POS can "be-
very valuable
ments," says
Shah, presi-
f Otiva, a
ue research
e and spon-
f the IPO
Web site

omaven.com),
source of
deed, David
n, a New
investor who
no profit on
fill despite
in at its de-
ow muses
ndisight that
g over the
nat people
ossed aside
e a good strategy."

ble as buying busted
y seem, however, it's
ly contrarian in the
hot market for new
In one recent week,
offerings hit the
including business
Heller Financial and
r Ziff-Davis. The 11
2.2 billion, nearly 25%
\$8.9 billion raised so
year, according to Re-
Capital, a money
in Greenwich, Conn.
ount is still behind
r's pace, but a long
eals—including ad-
g agency Young &
and oil giant Cono-
continue to rivet in-
attention.



STAR SPOTTING AMONG FALLEN IPOs

You should be wary of purchasing IPOs because at the outset, they're usually more for traders

than long-term investors. "The price of any IPO stock always comes down on the next trading day," says Calvin Lui, a West Bloomfield (Mich.) investor who bought Ziff-Davis and modem maker Broadcom, another recent issue, when they

came out. He has since sold both. "The prices of IPOs are so inflated that it is not worth keeping them overnight,"

Lui contends.

Shah's statistics on 3,100 IPOs over the past four years tend to back this up. The problem with IPOs is that the earnings of 60% of them disappoint investors by their third quarter as public com-

panies, Shah says. When that happens, fast-money, "momentum" investors dump the stock, and analysts turn their gaze elsewhere. Absent attention from the pros and liquidity, a new issue can often sink below the value of its underlying business. Solomon learned just that lesson with EarthShell, a maker of biodegradable packaging that he purchased at the Mar. 24 offering for \$21 a share. He still owns it—but it's \$12 now. EarthShell declined amid disappointment over its prospects from profiting anytime soon on sandwich containers for McDonald's. Still, Solomon isn't giving up hope. He intends to sell the stock to record a loss for tax purposes, but plans to repurchase it 31 days later.

STOCK-PICKER. Just because an IPO has plunged doesn't mean it's a screaming bargain. Robert Natale, co-manager of the Bear Stearns

S&P Stars Fund, has studied the new-issues market carefully and found that the worst-performing new issues usually continue to underperform. "You really need to be a stock-picker to do this," he warns. "Throwing darts won't work."

To see if we could zero in on some discounted IPOs with potential, we turned to Standard & Poor's (like BUSINESS WEEK, a unit of The McGraw-Hill Companies) to review last year's 374 new stock issues. From there, we winnowed out smaller stocks that went public at prices lower than \$10, along with any that now trade at less than \$5. We excluded cheaper IPOs be-

STOCKS

The problem is that 60% of initial public offerings disappoint investors by their third quarter

cause they tend to be underwritten by smaller investment banks and don't generate much of a following among investors and analysts. We also excluded stocks that weren't trading at least 10% below their initial offering prices.

earnings are growing, and it continues to have a wide following on Wall Street, with five analysts covering the stock.

Children's Place, a New Jersey-based retailer of kids' clothing, saw gross margins narrow in the fiscal year end-

ing for Positron, a manufacturer of telecom gear in Montreal, which has been suffering from delays in testing and launching a new product. Meanwhile, Ramco Energy, a British developer of oil and gas fields in eastern Europe and the former Soviet Union, suspended its dividend in April.

Analyst Shah is also extremely picky. He has recommended just 61 of the more than 3,900 companies that have gone public since January, 1994. But his firm's recommendations, which have included Estée Lauder and Sabre Group, have racked up an annual average return of 42% through Mar. 31. Right now, Shah counsels shunning biotechnology IPOs:

"Virtually every biotech company has disappointed investors."

Just the same, one advantage buyers of discounted IPOs enjoy is that the companies, once they have gone public, are obliged to disclose much more information than they do in their prospectuses. For example, Children's Place must now report its financials at least every quarter, giving investors a window into signs of improvements in the chain.

If digging around Street's castoffs on your isn't for you, a new fund, IPO Plus Aftermath will do the screening for you. Sponsored by Renaissance Capital, the no-load fund has climbed 12% since its February debut. It aims to invest in IPOs when they are offered and as values drop later on. The fund's biggest holdings include Commercial (the former Coldwell Banker real estate group); mutual-fund distributor Waddell & Reed; multimedia-chip manufacturer NeoMagic; telecommunications equipment maker Raytheon and Keebler, the cookie company best known for its

Whether you go to the fund or purchase stock directly, bear in mind that the strategy entails "looking for diamonds in the rough." There are not a lot of diamonds. Bear Stearns's Natalie Kline says, "For every Microsoft, there are five other stocks that disappear from the face of the earth." All the more reason to do your homework carefully before you buy what looks at first like a bargain left behind in a frenzy. *Robert*

To scan the entire list of 1997 IPOs and how they've performed, visit BWOnline.com or www.businessweek.com

New Stocks that Faltered in 1997 —And Why They May Come Back

COMPANY	IPO PRICE	RECENT PRICE*	1998 EARNINGS PER SHARE**	1999 EARNINGS PER SHARE**
BOX HILL SYSTEMS (BXH)	\$15	\$9.63	0.63	0.84
CHILDREN'S PLACE RETAIL STORES (PLCE)	14	10.00	0.46	0.60
POSITRON FIBER SYSTEMS (PFSCF)	11	6.25	-0.06	0.10
RAMCO ENERGY (RCO)	17	11.13	0.11	0.26

*May 11 ** Estimated

SOURCE: STANDARD & POOR'S; MORNINGSTAR INC.; ZACKS INVESTMENT RESEARCH, BUSINESS WEEK

That left us with 51 issues. We poured those into Morningstar's StockTools software to screen for companies with market values of at least \$100 million and which analysts expect to report a profit next year. Only four companies made the cut (table): Box Hill Systems, Children's Place Retail Stores, Positron Fiber Systems, and Ramco Energy.

STIFF COMPETITION. Are the four worth buying now? Perhaps, but each company suffers from flaws. Box Hill, for instance, must compete against the likes of Compaq Computer, Hewlett-Packard, and Sun Microsystems. On the other hand, its

ed Jan. 31 as it slashed prices to clear inventories. Reversing that practice as the chain expands will be a key to the stock's revival. In fact, the chain's same-store sales were up 7% in the latest quarter ended May 2, vs. 5% the year before, a sign that the worst may be over.

The news is less encour-



What To Look For in Discounted Issues

HIGH MARKET CAPS

Highly valued companies are less likely to get lost on Wall Street. Mutual funds and other institutional investors often are barred from buying companies with less than \$100 million or \$200 million in value.

ANALYST COVERAGE

If no analysts follow a company, its stock is more likely to remain depressed even if profits and prospects improve. More coverage increases the stock's visibility and chances of strength.

SPINOFFS

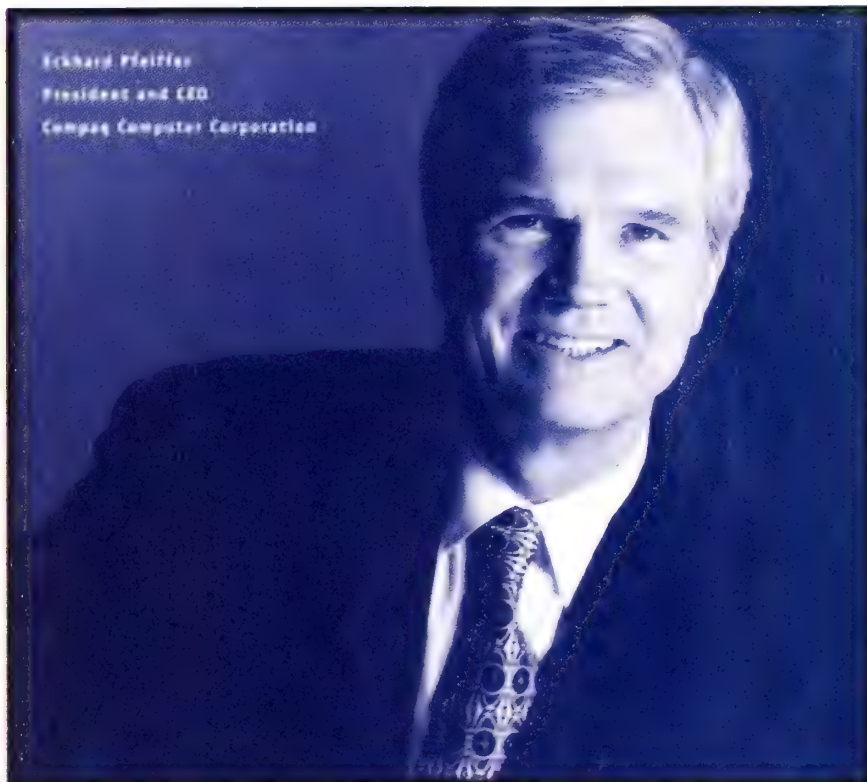
Fast-money investors often pass up the spinoffs of established corporations' divisions. These deals, such as DuPont's sale of Conoco, tend to have less hype and can result in fewer disappointments.

FINANCIAL STR

Companies with strong balance sheets—relatively more equity and less debt—can endure trouble better than those that are highly leveraged.

SOURCE: DATA OTIVA, STANDARD

WORLD-CLASS LEADERS DELIVER WORLD-CLASS SOLUTIONS



Now with **SIEBEL, COMPAQ** enables highly optimized,
enterprise-class sales information solutions to dramatically increase
productivity and profitability."

COMPAQ Compaq™ — the worldwide leader in industry-standard enterprise computing platforms. Siebel — the
worldwide leader in global sales information software solutions. Together, Compaq and Siebel size, test,
and optimize proven sales information solutions for their global customers. The result — dramatic and rapid increases in
sales productivity, profitability, and customer satisfaction. Join the many world-class, industry-leading organizations,
such as Compaq, who have standardized on Siebel and provide your company with a proven competitive advantage.
To learn more, call us at 1-800-720-3115, ext.9184 or visit Siebel at www.siebel.com.

SIEBEL
Sales • Marketing • Customer Service

CEO Summit

The New Rules: Mastering the Challenges of the New Economy

America has witnessed an economic revolution. The result: a radically different economy in which the "digital industries" set the pace and old habits of business are replaced by new skills.

In September, *Business Week* will bring together today's most prominent business leaders to consider the challenges executives face in this transformed business world. These economic pioneers will relate practical and hard-won knowledge as they redefine economic theory and business practices for today's chief executive.

Join us at *The 1998 Business Week CEO Summit* and learn how to play – and win – by the new rules.

Presented in association with

THE BUSINESS ROUNDTABLE 



SANFORD WEILL
*Chairman & CEO,
Travelers Group*



RANDALL T. LILL
*Chairman & CEO,
Eli Lilly*

SEPTEMBER 23-25, 1998

THE RENAISSANCE MAYFLOWER HOTEL

WASHINGTON, D.C.

BusinessWeek

Most Read. Best Read. Worldwide.

SPONSORED BY

BAIN & COMPANY, INC.

EDS

MISSOURI DEPARTMENT OF ECONOMIC DEVELOPMENT

PEOPLESOFT, INC.

WITH SUPPORT FROM

WHARTON EXECUTIVE EDUCATION

produced with the cooperation of

CONGRESSIONAL QUARTERLY

Featured Speakers



DONALD FITES

*Chairman & CEO,
Caterpillar;
Chairman,
The Business Roundtable*



JOHN CHAMBERS

*Chairman & CEO,
Cisco Systems*



ANTHEA DISNEY

*Chairman & CEO,
News America
Publishing Group*

TO REGISTER OR FOR MORE INFORMATION ON:

The Business Week CEO Summit, please contact Julie Terranova, Registration Manager
PHONE: 888-239-6878 • FAX: 212-512-6281 • E-MAIL: jterranova@businessweek.com
FAX ON DEMAND: 888-239-6878 Document #20

Attendance is limited to CEOs, Presidents, and Chairman of leading corporations.

The McGraw-Hill Companies





BizLink

Unless, of course, you actually enjoy filling out forms.

Want advertiser information now, without having to fill out one of those pesky reader service cards? Connect with BizLink, Business Week's new electronic reader service fulfillment system. You'll get the information you need the way you want it—by fax, phone, mail, or e-mail. It's free, it's fast and nothing could be simpler. **Why wait?**

Access BizLink now:

www.businessweek.com/BizLink/

BusinessWeek

Most Read. Best Read. Worldwide.

And if you don't have an Internet connection, just call 1-800-848-6708.

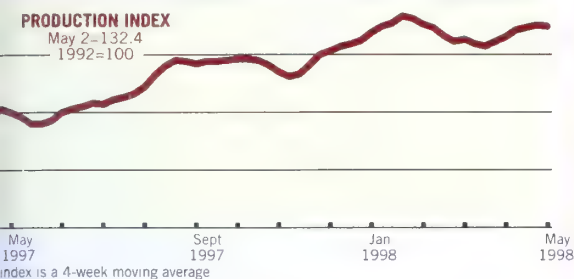
May 25, 1998

1 3Com	8 International Paper	15 Mississippi Department of Economic & Community Development	21 Roadway Express
2 American Izusu Motors Inc.	9 J.D. Edward	16 M.O.D.E.D., Missouri Department of Economic Development	22 RYDER
3 ARAMARK	10 Kingston Technology	17 Network Solutions	23 SAP America, Inc.
4 Charles Schwab	11 Kinko's	18 Oracle	24 SAS Institute, Inc.
5 Epson America	12 Lexus Luxury Automobiles	19 Partner fuer Berlin	25 Toyota
6 GTE Internetworking	13 Liberty Mutual	20 Qwest	26 Vantive Corporation
7 Hughes Network Systems	14 MCI Data		27 Veba AG

Business Week Index

PRODUCTION INDEX

Change from last week: 0.1%
Change from last year: 5.9%



Production index dipped in the week ended May 2, and so did the index which fell 0.3%, to 132.4 from 132.8. After seasonal adjustment, coal production was up 3.8%, with large increases in output in Utah and Colorado. Production of steel, oil, and trucks also increased, as did rail-freight. Auto output posted a 10.7% decrease, and electricity and lumber production were also down. The index for April was 132.5, up 1.1%, from March.

Production index copyright 1998 by The McGraw-Hill Companies

FINANCIAL INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STOCK PRICES (5/8) S&P 500	1108.14	1121.00	34.4
CORPORATE BOND YIELD, Aaa (5/8)	6.72%	6.78%	-11.1
MORTGAGE SUPPLY, M2 (4/27) billions	\$4,162.5	\$4,171.6r	7.0
UNEMPLOYMENT CLAIMS, UNEMPLOYMENT (5/2) thous.	308	319r	-11.2
MORTGAGE APPLICATIONS, PURCHASE (5/8)	279.2	282.5	36.1
MORTGAGE APPLICATIONS, REFINANCE (5/8)	1,297.0	1,326.5	327.5

S: Standard & Poor's, Moody's, Federal Reserve, Labor Dept., Mortgage Assn. (Index: March 16, 1990=100)

INTEREST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
MUTUAL FUNDS (5/12)	5.54%	5.22%	5.42%
COMMERCIAL PAPER (5/12) 3-month	5.50	5.50	5.69
CERTIFICATES OF DEPOSIT (5/13) 3-month	5.59	5.58	5.70
MORTGAGE (5/8) 30-year	7.18	7.28	8.08
CABLE MORTGAGE (5/8) one-year	5.80	5.80	6.04
(5/8)	8.50	8.50	8.50

S: Federal Reserve, HSH Associates, Bloomberg Financial Markets

Seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

THE WEEK AHEAD

WHAT STARTS

May 19, 8:30 a.m. EDT ▶ New single-family homes are expected to have edged lower in April, to an annual rate of 1.58 million, according to the forecast of economists surveyed by Standard & Poor's MMS, a division of The McGraw-Hill Companies. March starts stood at 1.6 million. With mortgage rates still high, construction is expected to remain at a low level this spring, but further big gains are unlikely.

MEETING

May 19 ▶ The Federal Reserve's upcoming Federal Open Market Committee meeting to set interest rates. Only two

of the 30 or so economists surveyed by S&P MMS expect the Fed to hike the federal funds rate, currently at 5.5%. However, about a third expect a rate increase in July, and 50% foresee a hike by August. Wall Street is increasingly wary that the Fed is moving toward a rate hike, suggested by the April employment report, which showed ever-tighter labor markets.

INTERNATIONAL TRADE

Wednesday, May 20, 8:30 a.m. EDT ▶ The U.S. trade deficit, including both goods and services, is expected to have edged lower in March, to \$12 billion, based on the S&P MMS survey. The February gap was \$12.1 billion. Exports are projected to have increased

1.3% from \$77 billion in February, while imports are expected to have risen by 1%, from \$89.1 billion. The impact of the Asian crisis is expected to keep the trade deficit unusually wide in March.

FEDERAL BUDGET

Thursday, May 21, 2 p.m. EDT ▶ Amid an expected gusher of tax receipts, the April budget will show a surplus of \$119 billion, according to the S&P MMS survey. The April, 1997, surplus was \$93.9 billion. If so, the budget would be in surplus by \$49 billion for the first seven months of the 1998 fiscal year, vs. a deficit of \$17 billion in the first seven months of 1997. This year's full-year surplus could hit \$50 billion.

PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (5/9) thous. of net tons	2,193	2,228#	4.6
AUTOS (5/9) units	120,832	112,987r#	-2.8
TRUCKS (5/9) units	148,684	148,118r#	32.5
ELECTRIC POWER (5/9) millions of kilowatt-hrs.	58,363	56,601#	3.0
CRUDE-OIL REFINING (5/9) thous. of bbl./day	14,920	15,265#	1.2
COAL (5/2) thous. of net tons	21,876#	21,164	1.6
LUMBER (5/2) millions of ft.	494.1#	496.3	-0.9
RAIL FREIGHT (5/2) billions of ton-miles	27.8#	27.4	6.5

Sources: American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, American Petroleum Institute, Energy Dept., WWPAl, SFPa2, Association of American Railroads

PRICES

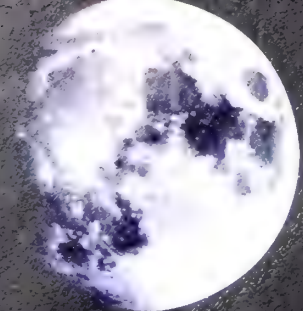
	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (5/13) \$/troy oz.	299.100	301.000	-14.3
STEEL SCRAP (5/12) #1 heavy, \$/ton	135.50	133.50	-2.2
COPPER (5/8) ¢/lb.	85.0	87.6	-24.8
ALUMINUM (5/8) ¢/lb.	68.5	70.0	-13.1
COTTON (5/9) strict low middling 1-1/16 in., ¢/lb.	63.71	63.42	-7.4
OIL (5/12) \$/bbl.	15.16	15.36	-27.5
CRB FOODSTUFFS (5/12) 1967=100	239.07	239.98	-0.1
CRB RAW INDUSTRIALS (5/12) 1967=100	304.79	306.08	-9.9

Sources: London Wednesday final setting, Chicago market, Metals Week, Memphis market, NYMEX, Commodity Research Bureau

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (5/13)	134.10	132.75	118.45
GERMAN MARK (5/13)	1.78	1.77	1.70
BRITISH POUND (5/13)	1.63	1.66	1.64
FRENCH FRANC (5/13)	5.96	5.92	5.72
ITALIAN LIRA (5/13)	1754.0	1741.8	1674.0
CANADIAN DOLLAR (5/13)	1.44	1.44	1.39
MEXICAN PESO (5/13)	8.516	8.475	7.892
TRADE-WEIGHTED DOLLAR INDEX (5/13)	110.9	110.0	103.9

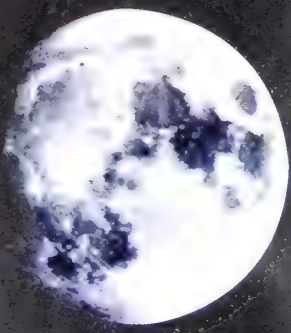
Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars. Trade-weighted dollar via J.P. Morgan



BERLIN - IT'S JUST

ONE SMALL STEP

FOR YOUR BUSINESS ...



...but one giant leap for your business opportunities. Not only does Germany's capital city provide all the modern business amenities you'd expect - it's also undergoing a massive rejuvenation, which itself offers a pioneering business potential not found in other world capitals.

Link that to our unique geographic location - just over 40 Autobahn miles from the rapidly expanding markets of Central and Eastern Europe - and you end up with an astronomical potential for your business. So come and join us in Berlin. Berlin Economic Development Corporation. Fax: +49(30)399 80-239, e-mail: info@wf-berlin.de, Internet: <http://www.berlin.de>

**Your Gateway to
New Opportunities.**

Berlin

Index to Companies

This index gives the starting page for a story or feature with a significant reference to a company. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

A

ABB 50
Affymetrix (AFFX) 70
Alliant Foodservice 42
AlliedSignal (ALD) 32
Amazon.com 111
American Express Advisors (AXP) 119
American Home Products (AHP) 44
Amentech (AIT) 36, 142
AmenTrade 130, 132
Anderson Design 94
Appelbaum (Ralph) 90
Apple Computer (AAPL) 56, 62, 78
Aragon Consulting 36
Arcadia Investment 112
Archer Daniels Midland (ADM) 44
Anel Mutual Funds 32
Arthur Andersen 6
AT&T (T) 36, 40, 46, 142
Audible 83
Avon Products (AVP) 51, 112
Axiom 98

B

BancAmerica Robertson Stephens (BAC) 130
BankAmerica (BAC) 120, 122
Bay Networks (BAY) 46
Bear Stearns (BSC) 44, 133
Bechtel 50, 51
Bell Atlantic (BEL) 32, 36
BellSouth (BLS) 36
Best Cellars 90
Beverage Marketing 42
BigCharts 122
Black & Decker (BDK) 98
Body Shop 46
Boeing (BA) 46, 50
Bojangles 42
Box Hill (BXH) 133
Briefing.com 122
Burger King 42

C

Capital International 50
Cargill 44
Catalyst 112
CB Commercial 133
Chiat/Day 56
Chicago Bulls 77
Children's Place (PLCE) 133
Chrysler (C) 36
Citicorp (CCI) 34, 36
Coca-Cola (KO) 42
Coleman 46
Compaq Computer (CPQ) 56, 62, 133
Corometrics Medical Systems 94
Cowen 112
Credit Suisse First Boston 132

D

Daedalus Design 101
Daimler Benz (DAI) 36
Dataquest 56
DeKalb Genetics (DKB) 44
Dell Computer (DELL) 56, 62, 122

E

DeLorme 18
Delta & Pine Land 44
Digital Equipment (DEC) 62, 86
DirectTV 46
Discover Brokerage 130
Dow Jones (DJ) 122, 130
DuPont (DD) 44, 52

F

Fidelity Investments 122, 130
Financial Investors 120
First Alert 46
First Call 122
Fitch 78, 86
Fleet Financial (FLT) 122
Forrester Research (FORR) 6, 132
Forstmann Little 46
Fortis Advisers 56
frogdesign 78
Fujitsu 52, 78

G

General Electric (GE) 32, 50, 51
Gerard Klauer Mattison 56
Golden Vale 52
Gomez Advisors 122, 130
Groupe Danone 46

H

Hard Rock Cafe 42
Hasbro (HAS) 119
Hauser 78
Heller Financial (HF) 133
Herbst LaZar Bell 78
Herzog Heine Geduld 120
Heufler Design 100
Hewlett-Packard (HWP) 18, 78, 133

I

Hoechst 44
Howe Barnes 130
Howrey & Simon 111
Human Genome Sciences (HGS) 70
Hyseq 70
Ibbotson Associates 122
IBM (IBM) 40, 62
IDEO 78, 83
id Software 56
Incyte Pharmaceuticals (INCY) 70
Intel (INTC) 51, 112, 122
International Data 56
Internet Patent News Service 111
Intuit (INTU) 46, 56
Ipswitch 18

J

JetFax 18
John Hancock Mutual Life 46
Johnson & Johnson (JNJ) 32

Jurika & Voyles 120

K

Kearney (A.T.) 36
Keebler (KBL) 133
K J McNitt Construction 90
Knight-Trinmark Group 120

L

Lehman/Smith/Wiseman 90
Levi Strauss 46
L.L. Bean 111
Lockheed Martin (LMT) 6, 50
LSI Logic (LSI) 120

M

Macroeconomic Advisers 32
Macromedia (MACR) 56
Marvel Entertainment (MRV) 119
Mattel (MAT) 112, 119
McDonald's (MCD) 42, 133
McGraw-Hill (MHP) 133, 139
MCI Communications (MCIC) 12, 36, 46
Merrill Lynch (MER) 122, 130
Metropolitan Life 46
Microsoft (MSFT) 6, 34, 40, 56, 112, 122, 133
Monsanto (MTC) 44
Morgan (J.P.) (JPM) 36
Morningstar (MSTR) 133
Motorola (MOT) 12, 78

N

NationsBank (NB) 120
NBA 77, 119
NBC (GE) 112
NEC 34
NeoMagic (NMGC) 133
NEOS 78
Netscape Communications (NSCP) 11
News Corp. (NWS) 46
New York Knickerbockers 77
NeXT 56
Nike (NKE) 46
Nokia 78
Northern Telecom (NT) 46, 52, 78, 86
Northrop Grumman 6
Norwest Investment Management 26
Novartis 44, 74
Novo Nordisk 92

O

Ogilvy & Mather 112, 119
Oppenheimer 56
Otiva 133

P

Paradox Design 78
PepsiCo (PEP) 42, 112
Pepsi-Cola General Bottlers 42
Perkin-Elmer (PKN) 70
Philips Electronics (PHG) 46, 78
Piper Jaffray (PJC) 132
Pixar (PIXR) 62, 112
Posttron Fiber 133
Prestone Products (ALD) 98
Price Waterhouse 130
PrimeStar 46
Prisma Design 88
Protein Technologies 44

Q

Quick & Reilly 122, 130
Qwest Communications (QWST) 36

R

Ramco Energy 133
Regional Financial Association 32
RELTEC (RLT) 133
Renaissance Capital 13
Rockwell Group 90

S

Sabre Group (TSG) 133
Salomon Smith Barney (TRV) 50, 122
Samsung 78
Sandbaggar 32
SBC Communications (SBC) 34, 36, 142
Schering 44
Schiebel 100
Schwab (Charles) (SCH) 130, 132
Seagate Technology (SE) 133
Seagram (VO) 46
Sentient Systems 101
Signature Brands 46
Smart Design 78
Sony (SNE) 62, 78, 111
Spear Leeds & Kellogg
Standard & Poor's (MHI) 122, 133, 139
Steiner Design 78
Stuart Karten Design
Subway 42
Sunbeam (SOC) 46, 78
Sun Microsystems (SUN) 133
Symantec 18
Symphony (SNPS) 120

T

TCI 46
Texas Instruments (TXI) 133
Thomson 78
3Com (COMS) 18
Time Warner (TWX) 48
Toronto Dominion Bank
Toys 'R' Us (TOY) 112
Travelers (TRV) 34, 36
Tricon Global (YUM) 46
Turner Sports (TWX) 78
Tyco Toys (MAT) 119

U

Ulster Carpet Mills 56
USA Waste Services (UWS) 133
U.S. West (USW) 36, 46

V

Vanguard Group 122
Vector Securities 70
Viacom (VIA) 112
Vickers 122
Volkswagen 78, 88

W

Waddell & Reed Financial (WDR) 133
Walt Disney (DIS) 111
Wang Global 111
Waste Management
Waterhouse Investors Services 122
Wendy's 42
Whirlpool (WHR) 98
White (Jack) 122, 133
Widex 92
WorldCom (WCOM)

Y

Young & Rubicam 111

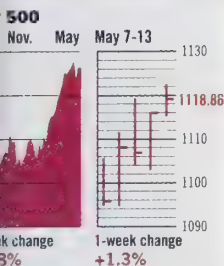
Z

Zeneca (ZEN) 44
Ziba Design 78
Ziff-Davis (ZD) 133

Business Week (ISSN 0007-7135) published weekly, except for one week in January and one in August, by The McGraw-Hill Companies, Inc. Editorial, Circulation, and Advertising Offices: 1221 Avenue of the Americas, New York, N.Y. 10020 U.S. subscriber rate \$54.95/year; \$69.95/year. Per odicals postage paid at New York, N.Y., and at additional mailing offices. Postage paid at Montreal, P.Q. Canada Post International Publications Mail Product Sales Agreement No. 246484 Postmaster: Send address changes to BUSINESS WEEK P.O. Box 430, Hightstown, NJ 08520.

Investment Figures of the Week

KS



MARKET COMMENTARY

Signs of recovery and confidence in the financial markets. The Dow Jones industrial average, after dipping below 1100 on May 7, staged a comeback and closed at 1118.86 on May 13, the first time since May 13, 1997. U.S. stocks were buoyed by optimism that interest rates would remain low. Despite inflation and retail sales reports, meanwhile, bond prices, which were down on May 12 as well, rose in the yield of 30-year Treasury bonds below 6% engaged bond and stock markets.

U.S. MARKETS

	Latest	% change Week	% change Year
Dow Jones Industrials	9211.8	1.7	26.4
NASDAQ Combined Composite	1866.2	0.5	39.7
S&P MidCap 400	372.7	-0.2	38.1
S&P SmallCap 600	199.9	-0.4	34.9
S&P SuperComposite 1500	239.6	1.1	34.3

SECTORS

	Latest	% change Week	% change Year
Bloomberg Information Age	352.3	1.1	39.1
S&P Financials	133.7	1.1	40.9
S&P Utilities	237.3	-0.7	22.4
PSE Technology	361.8	0.9	34.4

FOREIGN MARKETS

	Latest	% change Week	% change Year
London (FT-SE 100)	5972.9	-0.3	27.4
Frankfurt (DAX)	5376.9	2.8	50.5
Tokyo (NIKKEI 225)	15,343.8	0.7	-24.1
Hong Kong (Hang Seng)	9469.3	-6.3	-33.1
Toronto (TSE 300)	7707.5	0.4	23.4
Mexico City (IPC)	4756.6	-3.5	22.1

FUNDAMENTALS

	Latest	Week ago	Year ago
S&P 500 Dividend Yield	1.40%	1.40%	1.78%
S&P 500 P/E Ratio (Last 12 mos.)	26.7	26.7	21.0
S&P 500 P/E Ratio (Next 12 mos.)*	21.7	21.7	17.2
First Call Earnings Revision*	-0.97%	-1.01%	NA

TECHNICAL INDICATORS

	Latest	Week ago	Reading
S&P 500 200-day average	992.4	989.1	Positive
Stocks above 200-day average	59.0%	61.0%	Neutral
Options: Put/call ratio	0.58	0.41	Negative
Insiders: Vickers Sell/buy ratio	2.86	3.19	Positive

Data: Bloomberg Financial Markets; *First Call Corp.

BEST-PERFORMING GROUPS

	Last month %	Last 12 months %
Computer Systems	25.4	Specialty Appar. Retailers 116.2
Specialty Appar. Retailers	16.7	Broadcasting 98.6
Paper Containers	13.7	Homebuilding 80.4
Semiconductors	11.6	Personal Loans 73.6
Defense Electronics	11.2	Communications Equip. 71.0

WORST-PERFORMING GROUPS

	Last month %	Last 12 months %
Commercial Services	-12.7	Metals -37.7
Invest. Banking/Brkrge.	-12.6	Gold Mining -18.1
Transportation Services	-10.4	Shoes -17.2
Metals	-9.8	Photography/Imaging -14.4
Tobacco	-7.7	Engineering & Constr. -13.8

BLOOMBERG MONEY FLOW ANALYSIS

Rebound ahead? Stocks with most significant buying on price weakness

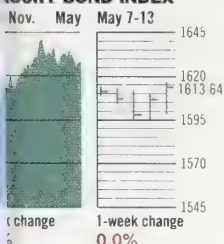
	Price	1-month change
Citicorp	152 1/8	-10 3/16
Chase Manhattan	140 1/2	-5 7/8
Oracle	26 1/16	-2 3/8
BankAmerica	85	-6 1/8
AT&T	57 13/16	-6 1/2
First Chicago NBD	88 3/8	-7 3/8

Decline ahead? Stocks with most significant selling on price strength

	Price	1-month change
Dell Computer	94 3/8	26 23/32
Cisco Systems	76 3/8	9 7/8
Pfizer	111 13/16	10 11/16
Infoseek	30 1/4	8 11/16
Walt Disney	118 13/16	8 9/16
Washington Mutual	73 25/64	49/64

INTEREST RATES

TREASURY BOND INDEX



KEY RATES

	Latest week %	ago %	ago %
MONEY MARKET FUNDS	5.10	5.09	5.11
90-DAY TREASURY BILLS	5.11	5.11	5.19
6-MONTH BANK CDS	5.09	5.07	5.23
1-YEAR TREASURY BILLS	5.42	5.41	5.86
10-YEAR TREASURY NOTES	5.67	5.67	6.68
30-YEAR TREASURY BONDS	5.94	5.94	6.90
LONG-TERM AA INDUSTRIALS	6.51	6.51	7.40
LONG-TERM BBB INDUSTRIALS	6.94	6.97	7.85
LONG-TERM AA TELEPHONES	6.78	6.78	7.64

MAKE THIS MERGER AN OPPORTUNITY

One monopoly is bad. Two monopolies merged into a giant that controls one-third of the American phone market is worse. The SBC-Ameritech merger is a bad deal. As it stands, it should be opposed by the Justice Dept., the Federal Communications Commission, Congress, and anyone else who believes that competition is important to the health of the U.S. economy (page 36).

But the deal could prove to be a redeeming opportunity as well. If FCC Chairman William E. Kennard shows some spine, he can exact concrete measures from SBC that finally open up its home market to competition. SBC is notorious among the Bells for tying up the vaguely written Telecom Act in the federal courts in a successful attempt to block the act's provisions for generating competition in the local phone markets. SBC has also effectively kept AT&T from competing efficiently in local service in its home market. Now, SBC is promising to increase competition in other local phone markets, but not its own, if it is allowed to proceed with its \$56 billion merger with Ameritech.

The FCC should demand two things from SBC: First, SBC must stop thwarting the Telecom Act in the courts and end its opposition to open local phone markets. Second, it must slash access charges to local customers to AT&T, other regional Bells, and all other telecom players. Given SBC's long history of protecting its monopoly, nothing less is credible.

If regulators cannot get these concessions, then Congress must rewrite the Telecom Act. Senator John McCain (R-Ariz.) is right in saying that there was too much regulation left in the original bill. The SBC-Ameritech merger can be an opportunity or an affront to those who believe competition is essential to economic growth. One thing it should not be is yet another monopoly.

SEND ME YOUR SKILLED WORKERS

High tech accounted for nearly half of the 4.2% growth rate of the U.S. economy in the first quarter of 1998. It is responsible, in large part, for the incredibly low 1.7% unemployment rate for college-educated workers. So low, in fact, that the U.S. is running out of educated people who can work in designing, manufacturing, and selling computers, communication equipment, and other high-tech gear. Silicon Valley is banging on Congress' door to increase the number of six-year visas offered to high-skilled immigrants. Senator Spencer Abraham (R-Mich.) has proposed a bill that would hike the annual cap on such H-1B visas from 65,000 to 115,000 for five years. Congress should get behind it. A shortage of skilled workers threatens to slow down the high-tech

boom that is behind America's amazing economy (page 36).

Unions and protectionists oppose the bill. Strip away anti-immigrant bias and they make some cogent arguments. Up to 40% of these visas go, not to high-tech workers, but to physical therapists and other occupations, many of them unskilled. Foes also say that the visa program is simply a ploy to replace American workers with cheaper foreign labor.

Most of the H-1B visa workers are actually graduate students coming out of U.S. universities. To stay and work full-time, they need an H-1B. They should get one. As for corruption of the program, enforcement is the solution, not abolition. With full employment already attained for highly trained workers, employers can either bring in temporary employees to work in the U.S. or ship the work overseas.

Any simple check of the surnames of the leading figures in American high technology leads to only one conclusion: It benefits everyone for the world's best and the brightest to be able to work inside the U.S.

THE 11TH HOUR IN ASIA

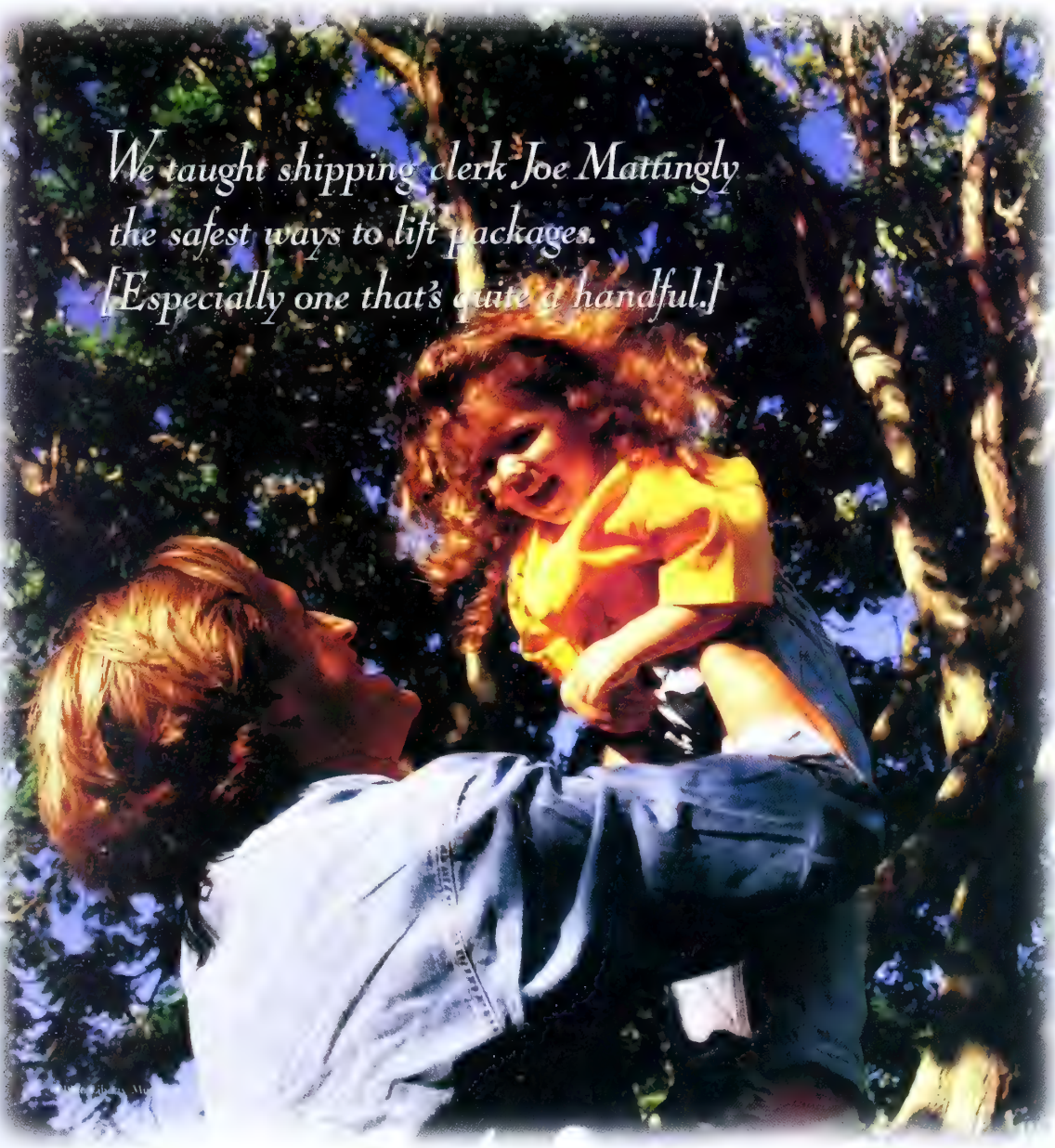
Student protesters killed in Indonesia. Riots in India. Plunging economies in Thailand and Malaysia. Civilian flight from Japan. Rising pressure to devalue the yuan in China. And now India, setting off five underground nuclear explosions to test warheads for missiles that will target China and Pakistan. Social unrest, economic disaster, and political instability are the new face of Asia, a region once so promising that the next 100 years were said to be the Pacific Century.

Asia today is poised on the brink. Decisions made by policymakers in the weeks ahead can return the Asian Rim to a track of peace, growth, and prosperity or send it down a path of instability and stagnation, or worse. Japan, which has shown remarkable economic restraint in maintaining the stability of its currency, must show similar political and military restraint in the face of India's provocations. It must continue to hold the yuan steady against the yen. Japan too must demonstrate discipline. If it continues to export itself out of recession and allows the yen to fall, 150, Korea and much of Southeast Asia will be devastated. Indonesia must also reverse course. Its economy is declining, anti-Chinese looting is worsening, and students are being killed by the military. Suharto must step aside if peace and prosperity are to return.

Then there is India, jealous of China. The new Bharatiya Janata Party has confused economic strength with nuclear bluster. The U.S., Europe, and Asia paid more attention to Beijing because of China's markets for investments and trade, not because of its missiles.

The U.S. must begin to apply sanctions. The one offer that offers hope is for India to quickly sign the Comprehensive Test Ban Treaty, now that its tests have succeeded. This could head off sanctions.

Fast decisions are needed to avert catastrophe in Asia.

A photograph of a man with light brown hair, wearing a light blue button-down shirt, lifting a young child with curly brown hair wearing a yellow shirt into the air. They are outdoors, with trees and foliage in the background. The scene is captured in a low-angle shot, looking up at the man and child.

*We taught shipping clerk Joe Mattingly
the safest ways to lift packages.
[Especially one that's quite a handful.]*

Liberty Mutual is committed to reducing the impact of low back pain, so someone like Joe won't miss work, or the occasional piggyback ride with daughter Lisa. At our research center we analyze how variations in bending habits can affect the risk of low back pain. Our research has led to innovative products like Computask,[™] a software program we use to evaluate workplace tasks and help recommend ways to ensure that Joe and daughter Lisa live safer, more secure lives.

➤ *There's more information we'd like to share. So please call John Ryan at (617) 574-5842 or visit our website at <http://www.libertymutual.com>*



The freedom of Liberty

A photograph of a child swinging on a swing set. The child is wearing a light-colored, short-sleeved shirt and dark shorts. The swing is in motion, and the background is dark and out of focus. A red circle highlights the text '1.28 sec.' and a horizontal line of small circles spans the width of the image.

1.28 sec.

In the time it takes this child to swing from right to left, Qwest will send over two trillion bits of information coast to coast on its state of the art Macro Capacity™ Fiber Network. with only one bit of error possible every quadrillion bits. that's like one grain of sand missing from a twenty-mile stretch of beach. it's pal

BusinessWeek

MAY 11, 1998 / THE MCGRAW-HILL COMPANIES

\$3.95

SIA

The global
impact

e Feds vs. MICROSOFT

the suit will
the
try



t Growth COMPANIES

100 best
corporations

M

Can it really
achieve
double-digit
growth?

Abby Cohen
has been
right so far.
Now what?

The PROPHET of WALL STREET

PAGE 124

01010-010-4010

BURLINGAME PUBLIC LIBRARY
480 PRIMROSE RD
BURLINGAME CA

01010 94010
#BXBBGDD**5-DIGIT
#0602 1058111600#JAN99 TJN
01/1

BURLINGAME

MAY 22 1998

LIBRARY

Call 1-800-950-2243 or visit www.chevrolet.com. Suburban is a registered trademark and Chevy is a trademark of the GM Corp. © 1998 GM Corp. Buckle up, America!



*The Zippo Lighter Factory,
Bradford, Pennsylvania.*

*The Zippo was first made in 1933
and patented in 1936.*





The Chevy Suburban.

First made in 1936,

never patented.

(Maybe we should have.)

CHEVY SUBURBAN  LIKE A ROCK

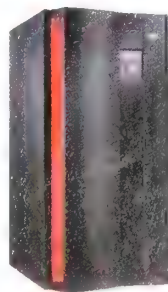
5820
1998
1999

YOU MIGHT BUY THE IDEA
THAT A LOT OF SERVERS
CAN DO THE JOB
OF THE **NEW S/390 G5 SERVER.**

**BUT THEN YOU'D
HAVE TO BUY
A LOT OF SERVERS.**

IBM S/390 PARALLEL ENTERPRISE SERVER - GENERATION 5™

twice the power of its high-end predecessors, the new CMOS-based S/390 G5 enterprise server easily
as the largest workloads. It supports UNIX®, Java™ and hot new apps like SAP R/3, Baan*, PeopleSoft, Oracle
ations and Lotus® Domino™. It even helps reduce cost by enabling server consolidation. And all this can be
a single enterprise system. Looking to do business on the Net? The S/390 server offers Parallel Sysplex®
ology with unsurpassed 99.999% availability and bulletproof security. To put a lot more server behind
enterprise, visit www.s390.ibm.com/g5 **IBM S/390: The defining standard in enterprise computing.**



 **e-business tools**

COVER STORY

THE PROPHET

Why Abby Cohen is the most closely heeded market watcher today

page 124

GERSTNER'S VOW

He insists that IBM



will enjoy double-digit growth again

page 110



BusinessWeek

JUNE 1, 1998

Cover Story

124 THE PROPHET OF WALL STREET

Abby Cohen has become one of the Street's most respected forecasters by remaining bullish when other pundits bailed. But to secure her reputation, she will eventually have to call the end of the bull market that made her famous

134 'WE'RE RIGHT ON TARGET'

Cohen is predicting modest profit growth and scant inflation into 1999

News: Analysis & Commentary

38 THE BATTLE FOR THE CYBER FUTURE

As Microsoft and Justice square off, the industry sees sweeping change ahead

40 A TALK WITH BILL GATES

Microsoft's honcho barks back at Justice

42 WHY BUST THAT TRUST?

The new ideology that guides the FTC's zeal

44 COMMODITIES CATCH THE ASIAN FLU

From oil to gold, it's down

46 COMMENTARY: THE FED

Greenspan missed out on hikes that now could pop the market's bubble

48 THE INTERNET SPACE RACE

McCaw and Motorola: A satellite team

50 IN BUSINESS THIS WEEK

SPECIAL REPORT

Asia: The Global Impact

52 THE PAIN HAS JUST STARTED

They expected a Mexico-like bounce, but now worried investors are preparing for a long, dark slump

56 CAPITAL FLEES TO SAFETY

That sucking sound is money—leaving

58 CHINA: BATTERED BY THE YEN

Will Beijing be forced to devalue?

60 THE FAILED INDONESIAN BAILOUT

How the IMF's rescue plan turned into a debacle

Economic Analysis

30 ECONOMIC VIEWPOINT

Tyson: How new is the New Economy?

34 ECONOMIC TRENDS

Why payrolls sneak up, immigrants and Social Security, the poor take on debt

35 BUSINESS OUTLOOK

It's a slowdown for sure

Government

51 WASHINGTON OUTLOOK

A China connection could trip it up. But how badly?

SPECIAL REPORT

Hot Growth Companies

70 WHAT IT TAKES TO BE A WINNER

This year's 100 little dynamos: business savvy, relentless focus, discipline, and a little bit of luck

74 KENDLE INTERNATIONAL

Testing drugs made it No. 1

76 BRASS EAGLE

Bang-up returns from paintball

78 MELITA INTERNATIONAL

A best friend to telemarketers

78 ARIS

Knocking heads with Arthur

82 DOVER DOWNS

The racetrack outfit is a speed

86 APEX PC SOLUTIONS

Growing fat on the server market

88 HOT AND COLD COMPANIES

The '97 winners and losers



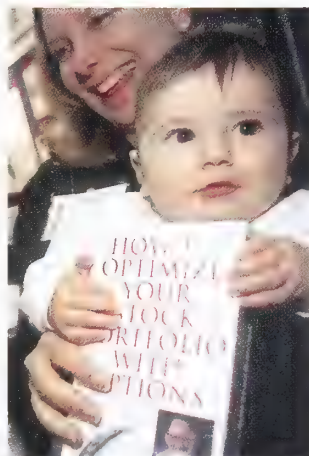
ON THE ATTACK
Microsoft isn't likely to give an inch *page 38*



VISIONARY
Sidgmore spreads the WorldCom Net gospel *page 152*



SPECIAL REPORT
The 100 hottest-performing small fry *page 70*



VEGAS BAZAAR
At the Money Show, investors shopped for ideas *page 158*

OFF THE DOLE
How welfare-to-work is working out *page 102*



Special Issues

WELFARE-TO-WORK: A GOOD START
The caseload has fallen, but the 1996 laws haven't truly been tested yet. Here's how three companies—Cessna, Intel, and United Parcel—have done it—

Starts Business

SPONSOR TO STARBOARD?
Around Alone sailing race just can't seem to land a big corporate backer

Corporation

REALIZING IBM
Blue's domain will shrink if CEO Watson doesn't reverse the giant's losses in key areas and reignite growth

Finance

HAVEN WHIZ OR ROGUE BANKER?
Harris' doings in Panama are drawing eyebrows

STAYING IN FLOATING CONDOS
Apartments at sea an idea whose time has come?

- 142 COMMENTARY: INSURERS**
They should claim a piece of the Web—or they may lose out to competitors
- 144 INSIDE WALL STREET**
- 169 INVESTMENT FIGURES OF THE WEEK**

Science & Technology

- 146 DEVELOPMENTS TO WATCH**
The benefits of routine screening, another chemo contender, a possible Tamoxifen rival, crushing tumors by starvation and germ warfare
- 147 CANCER: AFTER 25 YEARS, A PAYOFF**
Monoclonal antibodies—once almost written off—generate new excitement in the fight against breast cancer

Information Technology

- 27 TECHNOLOGY & YOU**
TV hookups to the Web make sense
- 152 SELLING THE WORLD ON WORLD.COM**
Vice-Chairman John Sidgmore is point man in its Net expansion strategy as trustbusters challenge its MCI merger

Media

- 155 THE CYBERFANS ARE ROARING**
Fantasy sports sites are taking off online, and big players are involved

Personal Business

- 158 INVESTING:** Visiting the Money Show
- SMART MONEY:** Euro-era bond plays
- INSURANCE:** Click here for coverage
- TRAVEL:** Bid on your air trip

Features

- 6 UP FRONT**
- 14 READERS REPORT**
- 14 CORRECTIONS & CLARIFICATIONS**
- 24 BUSINESS WEEK BEST-SELLER LIST**
- 26 BOOKS**
Finnegan: *Cold New World*
- 167 BUSINESS WEEK INDEX**
- 168 INDEX TO COMPANIES**
- 170 EDITORIALS**
Settle the Microsoft case
Rescuing Asia from the brink

Up Front

EDITED BY ROBERT McNATT



D.C. FOLLIES

ERSKINE BOWLES'S BIG BATH

WHAT'S THE PRICE YOU PAY for serving your country? In the case of White House Chief of Staff Erskine Bowles, a cool \$85 million. That's how much he missed out on when the Charlotte (N.C.) investment bank he founded was sold to banking giant First Union in March, *BUSINESS WEEK* has learned.

Bowles first joined the Clinton Administration in 1993 as head of the Small Business Administration and later became a top White House aid, a job he quit before being

lured back as chief of staff in 1997. Federal ethics laws required him to divest his interest in Bowles Hollowell Conner & Co. Bowles sold his stake in 1993 to the firm's other partners for what his con-

MISSING:

\$85 million

fidants say was a modest sum compared with First Union's payoff.

Maybe that explains why White House colleagues spotted the staff chief on the morning of the sale moaning, "I'm having a really bad day."

But don't shed tears for President Clinton's top aide, who had considered leaving his post until early this year. Though he missed a megajackpot, he is still rich enough to have taken the White House job for a salary of \$1 per year. His wife, Crandall, is president of textile giant Springs Industries. And she controls a family fortune of about \$700 million. *Dean Foust and Richard S. Dunham*

TALK SHOW "In those years, one grew up, fell in love, fell out of love, all to the sound of his voice."

—Angela Lansbury on Frank Sinatra

BRAND NEWS

IT'S THE TASTE, STUPID

ENERGY BARS, THOSE concoctions of carbs and proteins favored by athletes, have become a robust business, with estimated annual sales of \$300 million. But for America's largest candymaker, that business has hit the wall.

Candy-maker Mars said in mid-May that it has discontinued its v02 Max Energy Bar. The secretive, privately held company had little to say about the move. But industry experts claim the v02 Max wasn't selling. Why? Critics said it tasted lousy.

The v02 Max bar seemed to have plenty going for it:

Mars's powerful distribution channel, an "energy co" with a "unique blend of nutrients and anti-oxidants" and medical research claiming the bar improved athletic performance.

It wasn't enough. "The problem is it tastes horrible,"

said outdoor writer

and former mar-

tain guide Chris

Crossen,

gave his opinion on

the Internet.

really had a

problem with

the neon-orange

anti-oxidant

ing." On Mar-

own v02 Max

Web site, one au-

opined the bar

made runners seem

per faster so they

could find water to

wash out their mouths.

Mars says it will reevaluate

its strategy, and will re-

reenter the market. Ment-

Mars: Next time, take a

first. *Roy Furchuck*



ELECTION '98

WHY MOSELEY-BRAUN HAS TOP DEMS SCARED

TOP DEMOCRATS IN ILLINOIS and on Capitol Hill are increasingly worried that the Senate's first African-American woman, Carol Moseley-Braun, could lose this fall's election. "She is in trouble," says one veteran Democratic official.

Despite Moseley-Braun's lingering problems in office, which include allegations of campaign-fund mismanagement, party leaders had been optimistic until lately. They were expecting Moseley-Braun to win by painting her Republican opponent, banker Peter Fitzgerald, as a right-wing extremist, the same strategy that beat GOP Senate candidate Al Salvi in 1996.

But Democrats are having a harder time demonizing Fitzgerald—in part because their gubernatorial nominee, U.S. Representative Glenn Poshard, shares Fitzgerald's pro-gun, anti-abortion views.

It doesn't help that Fitzgerald is telegenic, a powerful campaigner, and wealthy. Including the March primary, he has spent \$1 million of his own money.

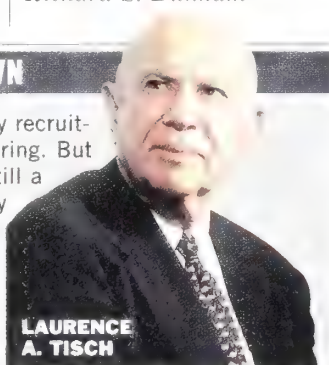
The latest poll was taken by Moseley-Braun's campaign shows her negative rating at 41%, vs. Fitzgerald's 23%. But independent polls call the race its dead heat—and that's enough to encourage Moseley-Braun's backers. *Richard S. Dunham*



LOSING? Bad poll news

THE LIST HOMEGROWN

Those pay packages for newly recruited CEOs may be mouth-watering. But rising through the ranks is still a well-trod career path. A survey of 100 large companies found that 44 of their CEOs had worked at the company they head all or most of their careers. These eight CEOs top the longevity list:



LAURENCE A. TISCH

NAME	COMPANY	AGE	YEARS WITH COMPANY
LAURENCE A. TISCH	LOEWS	75	52
ALEXANDER TROTMAN	FORD	64	43
DONALD V. FITES	CATERPILLAR	64	42
WALTER V. SHIPLEY	CHASE MANHATTAN	62	42
LIVIO DESIMONE	MINNESOTA MINING & MFG.	61	41
RAYMOND W. SMITH	BELL ATLANTIC	60	39
JOHN F. WELCH JR.	GENERAL ELECTRIC	62	38
KENNETH T. DERR	CHEVRON	61	38

DATA: CHRISTIAN & TIMBERS



Cool waters splashing in the lobby to soothe you.
Hot coffee brewing in your room to wake you.
AT HYATT EVERYTHING JUST FLOWS.

On your next business trip what will you demand from your hotel? The tools that enable you or the luxuries that reward you? At Hyatt you always get both.

To make your stay as productive as possible, our Business Centers are staffed to help with needs such as dictation, photocopying, translation, and courier services.

And if your trip also offers you the opportunity to unwind, ask about Regency Club. There you'll find the special value of more spacious rooms and the added convenience of a private lounge



with a dedicated concierge staff, complementary continental breakfasts and evening hors d'oeuvres.

Of course, no matter what brings you to Hyatt, your stay with us can earn free travel on our fourteen global airline partners or in Gold Passport, our worldwide frequent guest program.

So next time stay with Hyatt. And see just how smoothly a business trip can go. For reservations contact your travel planner, visit us at www.hyatt.com or call Hyatt at 1-800-233-1234.



Feel the Hyatt Touch

Travel with the American Express® Card and enjoy Cardmember privileges like Assured Reservations to guarantee your room, even if you arrive late.* With more than 1,700 Travel Service locations in over 130 countries,** the American Express worldwide network can also assist you with travel arrangements, letter pick-up, and American Express Travelers Cheques. It's smart business to make the American Express Card your constant travel companion. To apply for the Card, call 1-800-THE-CARD, or visit us at www.americanexpress.com.* Ask your travel planner for details.** Not all services available at all Travel Service locations and are subject to local laws and cash availability.



Cards

Regency Club is available for purchase at select Hyatt properties worldwide. Hyatt Business Center is open during local business hours at most Hyatt properties worldwide. Hyatt Hotels and Resorts® encompasses hotels owned, franchised, or operated by two separate groups of companies—Hyatt Corporation and its affiliates and affiliates of Hyatt International Corporation. ©1998 Hyatt Corp

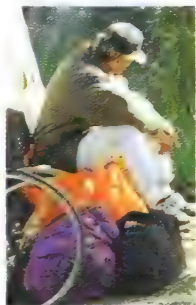
Up Front

SILICON CULTURE

PALO ALTO SAYS 'NO SURFING HERE'

PALO ALTO, CALIF., USED TO pride itself on the free Internet access it offered citizens on two PCs in the City Hall lobby. But no more. Citing misuse by low-income and homeless people, the city is pulling the terminals on June 1.

Since the terminals were installed in 1994, Palo Alto has considered them a symbol of the egalitarian promise of the Internet. Now, the PCs are moving to a library, where users can be closely monitored—and where visiting businesspeople are less likely to turn up. "We're not trying to sweep the homeless prob-



HOMELESS: Try the library

lem under the rug," says Susan Frank, chief of the local Chamber of Commerce. "But I can understand why businesspeople might be troubled" by the sight of the homeless in City Hall.

City officials say the move was undertaken to keep the heavily used computers in better repair. "The people using them haven't been as sophisticated recently as others who live here," says City Manager June Fleming. But the action says something about Palo Alto that some residents don't like.

"It's true that some segments of the population have been dominating use," says Liz Kniss, a former Palo Alto mayor. "But homeless people are members of the public, too." *Marcia Stepanek*

I-WAY PATROL

CABLE MODEMS: BUYER BEWARE

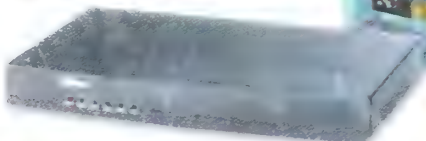
THE PUSH IS ON TO sell speedy cable modems, with pioneer Hayes preparing to offer the devices from retail stores as early as August. Hayes is the first major cable-modem maker to go this route. These ultrafast gizmos typically are hawked by local cable companies. But manufacturers like Hayes say consumers can get a better price by skipping the middleman.

Cable modems are at least 50 times faster than typical 28.8k PC modems, but the retail push may trigger more static than profits. Why? There is no uniform standard yet to make the modems com-

patible with all cable systems. So one could enjoy zippy Internet service in Ohio, yet find the modem useless in Maryland. Yankee Group analyst Jim Wahl expects to see a standard by yearend—which would boost retail sales.

Hayes isn't waiting. It will sell modems in Computer City stores to subscribers of Prestige Cable TV in Maryland, North Carolina, and Virginia for up to \$300. Prestige will install them. General Instrument already retails cable modems, and Motorola will do the same this summer. Superfast Web cruising is spreading. But move to the wrong zip code, and your fast connection may well lose its zip.

Nicole Ha...



DRAWN & QUARTERED



PRODUCT PEEK

JAPAN THROBS FOR THE LOVE BEEPER

IN THE MOOD FOR LOVE? TRY Lovegety. For about 3,000 yen, or \$20, this new Japanese matchmaking tool is sending thousands of love-starved salarymen and office ladies out into the streets—and maybe into one another's hearts.

Lovegety is not a drug or a magazine full of personal ads. It's a radio-operated device made by a small Japanese company, Erfolg, and it is the latest Japanese craze. Love hunters need only head to crowded places, turn on the gizmo—men's or women's version—and set it to search for friend,

karaoke partner, or love someone within five meters. Lovegety on with same setting, the thing off—two lights and a beep signal an exact match.

Erfolg has sold 350 Lovegeties in three months and has a backlog for 150 more. Buyers in Hong Kong and Britain clamoring for Erfolg expects toy to boost annual revenues several million. But isn't it dangerous to pose yourself, speak, to strangers in a crowd? Takeya Takeya



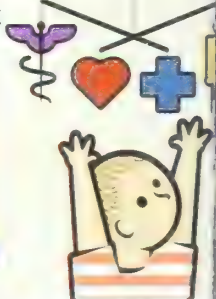
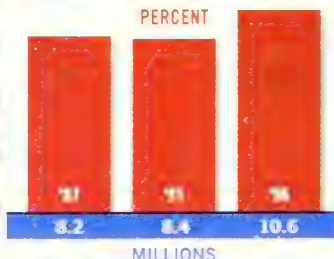
WORKERS: Yearning

Erfolg's Tokyo branch manager: "Young people are going dodging people they consider dangerous." Anyway, love is always willing to take a chance. *Miki Tanaka*

THE BIG PICTURE

SUFFER THE LITTLE CHILDREN More and more U.S. children lack health insurance. In 1996, 1 in 7 had no coverage. Strikingly, four-fifths of all uninsured children are in families above the poverty level.

U.S. CHILDREN LACKING HEALTH INSURANCE



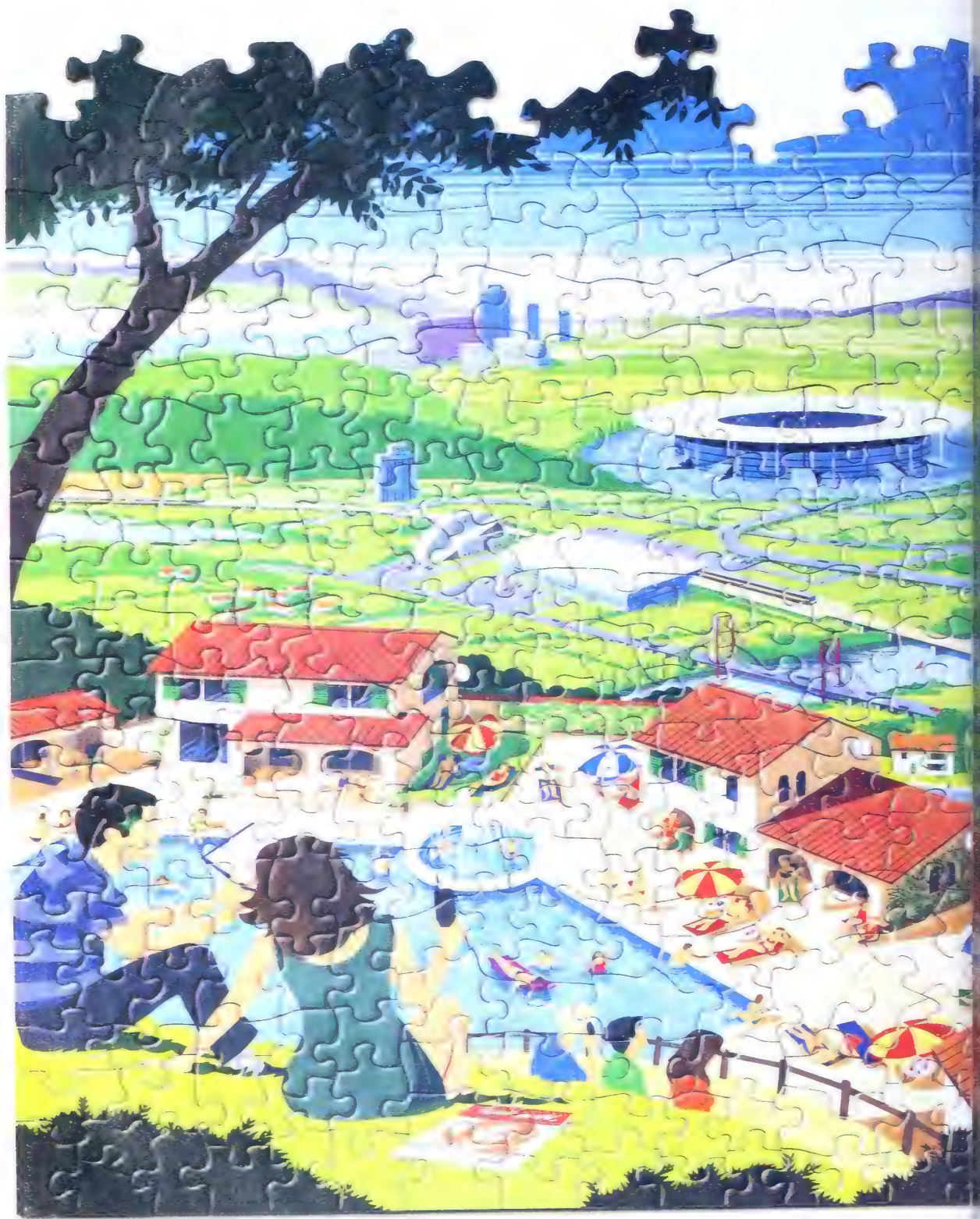


If you eat

you're almost certainly on a Siebe controlled diet.

For thought: during at least one meal today you'll be served by Siebe. We make more electronic controls for more kitchen appliances than any other manufacturer. We also run plants for the world's biggest food companies, regulating anything from ketchup's thickness to a crisp's crispness. We help you control other parts of your life too, from heating your home to the efficiency of your car. In fact, if you look closely, you'll find Siebe in almost every activity you can think of, and some you never need stop to think about. Siebe Temperature & Appliance Controls, PO Box 248, Dublin, Ohio 43017, USA. Tel 1-614-873-9200

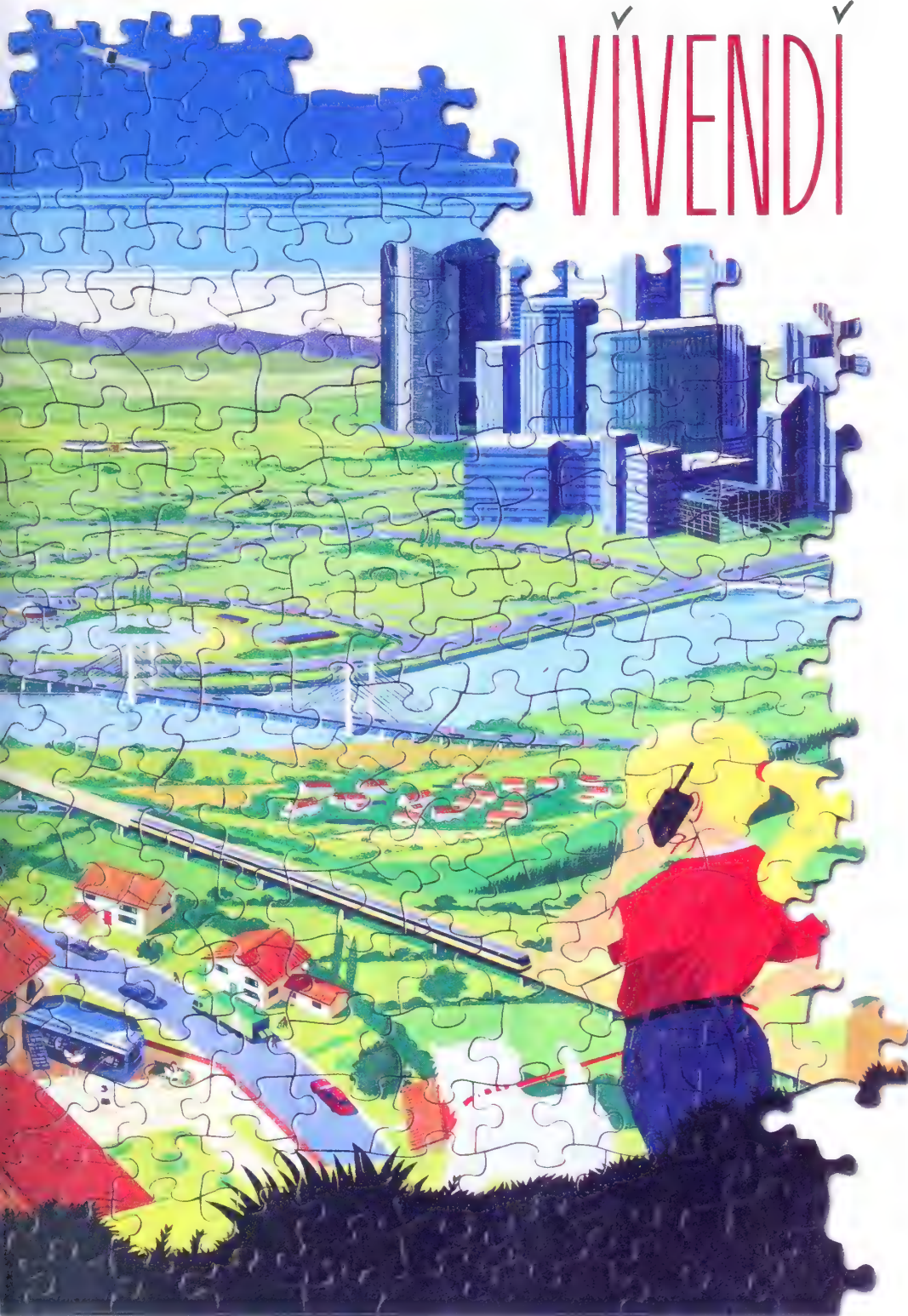




VIVENDI. COMMITTED TO MEETING YOUR LIFE'S EVER-CHANGING NEEDS

Vivendi is the new name for Compagnie Générale des Eaux. Its role has grown from simply providing people with

VIVENDI



er water, to providing energy, transport systems, waste management, construction and property, commun-
ons and telecommunications. In other words, simply to improve your everyday life, today and tomorrow.



World leader in Environmental Services and one of the major European leaders in Communication and Construction, Vivendi employs 220,000 people in 90 countries. Its turnover is close to \$35bn and its net

income is expected to exceed \$1.1bn in 1998. Vivendi's market capitalisation is close to 30bn (mid 1998). Vivendi is part of the DJ Euro Stoxx 50.

In the United States too, Vivendi's activities are every day helping to improve the quality of life for millions of people and the company has annual sales here of \$2bn

Air & Water Technologies, a Vivendi subsidiary, builds and operates water and waste-water facilities for 8 million people in 35 states, including Puerto Rico. Its Metcalfe & Eddy subsidiary has designed and implemented the Boston Bay depollution programme

In energy, Vivendi is one of the main independent electricity suppliers in the USA. Its Silex Energies subsidiary operates 35 plants in several states, representing a global capacity of 4,000 MW. These include Boston Edison's plants and the 1,000 MW Independence plant which plays a part in the lighting of Manhattan.

In the Waste Management field, Montenay Onyx, a subsidiary of Vivendi, operates 5 major "waste-to-energy" plants in North America, including Dade County in Florida, the most important one in the US.



VIVENDI

COMMITTED TO MEETING YOUR LIFE'S EVER-CHANGING NEEDS.

www.vivendi.com

EDITOR-IN-CHIEF: Stephen B. Shepard

MANAGING EDITOR: Mark Morrison

CHIEF ECONOMIST: William Wolman

ASSISTANT MANAGING EDITORS:

Sarah Bartlett, Robert J. Dowling, G. David Wallace

ART DIRECTOR: Malcolm Frouman

CHIEF OF CORRESPONDENTS: James E. Ellis

SENIOR EDITORS: Bob Arnold (New Media), Frank J. Comes, William Glasgal, Geoff Lewis, Paul Reburn, Kathy Rebello, Jane A. Sasseen, Ciro Scotti, Lee Walczak (Washington), Elizabeth Weiner, Chris Welles, Seymour Zucker

EDITORIAL PAGE EDITOR: Bruce Nussbaum

SENIOR WRITERS: Robert Barker, Anthony Bianco, John A. Byrne, Jeffrey M. Laderman, Gene G. Marcial, Karen Pennar, Otis Port, Gary Weiss

ECONOMICS: James C. Cooper (Sr. Economist/Bus. Outlook ed.), Kathleen Madigan, Michael J. Mandel (Economics ed.), Peter Coy, Gene Koretz (Trends ed.), Christopher Farrell (Contributing ed.)

INTERNATIONAL: Christopher Power (Asian Edition ed.); Rose Brady (European Edition ed.); Duane E. Anderson, Pete Engardio, Joan Warner (Sr. news eds.); John Templeman (Political affairs); Sheri Prasso (Asia); John Pearson (Latin America); Kerry Capell (Finance)

ASSOCIATE EDITORS: Catherine Arnest, Aaron Bernstein, Dan Beckue, Amy Dunkin, Rick Green, Neil Gross, Keith H. Hammonds, Kelley Holland, Larry Light, Ira Sager, Leah Nathans Spiro, Fred Strasser, Pat Wechsler

PICTURE EDITOR: Lawrence Lippmann

SENIOR ART DIRECTOR: Francesca Messina

DEPARTMENT EDITORS: Books: Hardy Green. Corporations: Nanette Byrnes, I. Jeanne Dugan. Enterprise: Robin D. Schatz. Legal Affairs: Mike France. Management: Jennifer Reingold. Marketing: Ellen Neuborne. Markets & Investments: Suzanne Woolley. Money & Banking: Debra Sparks. People: Eric Schine. Personal Business: Edward C. Baig. Personal Finance: Todd Gutner. Scoreboards: Frederick F. Jespersen.

Software: Amy Cortese. **Technology Strategies:** Marcia Stepanek. **Telecommunications:** Peter Elstrom. **Up Front:** Robert McNatt

STAFF EDITORS: Lori Bongiorno, Heather Green, Joan Oleck, Edith Udpick

COPY EDITORS: Prudence Crowther, Harry Maurer (Deputy chiefs); Marc Miller, Jim Taibi (Asst. chiefs); Tim Belknap, Aleta Davies, Jack Robbins, Doug Royalty (Sr.); Giles Blunt, Joseph Mandel, Anne Newman, David Pengilly, Malka Percal, Lourdes Valeriano. **Researchers:** Maria Chapin, Gail Fowler, Aida Rosario, Oluwabunmi Shabi

PRODUCTION COPY EDITORS: Lawrence Dack (Chief), Hallberg Hallmundsson, Celine Keating, B. Kite, Robert S. Norman, Robert J. Rosenberg, Victoria Rubin

ART: Jay Petrow, Steven Taylor (Deputy dirs.); Don Besom, Alice Cheung, Andrée Kahlmorgen, Christine Silver (Assoc.); Peter Marshutz (Asst.). **Graphics & New Media:** Arthur Eves (Creative dir.); Joan Danaher (Graphics dir.), Rob Doyle (Assoc.); Jamie Beauchamp; Alan Baseden, Lisa Knouse Braiman, Alberto Mena, Ray Vella (Illustrators); Eric Hoffmann.

Imaging: Annette Farrell (Mgr.), Alan Bornzer (Asst.), Leo Nietzer, Joseph Rhames

PHOTO EDITORS: Scott Mlyn (Deputy); Ronnie Weil (Sr.); Michael Hirsch, Anne Murray, Andrew Popper, (Assoc.); Bettina Baudoin, Kathleen Moore (Asst.); M. Margarita Eiroa; Lawrence Crowe; Sarah Greenberg Morse (Researcher)

EDITORIAL OPERATIONS: Yvonne F. Rodriguez (Director), Waldo Baudin, Nicholas M. White (Mgrs.). Karen Butcher, Francisco Corda, Thomas R. Dowd, Nancy Gores, Stephen R. Lebrun, Jody A. LoGrasso, Jose L. Martin, Peter K. Nieceberg, Jane M. Perkinson, Laura Reissman, Karen Turok, Hse V. Walton, Barbara Wilhelm, Donald C. Pearson, Guillermo Ortiz

EDITORIAL TECHNOLOGY: Thomas L. Morgan (Director); Guillermo Ortiz, David Bandler, Marie Bryant, Beth Higgins, James Kutz, Neil MacLeod, John Navarro, Juan Rodriguez, Marta Skrelja, Craig Sturges, George White

BUSINESS WEEK ONLINE: Michael Mercurio (Managing ed.); A. Peter Clem, John A. Dierdorff, John Johnsrud, Dennis K. Berman, Nadav Enbar, Paul Eng, Patrick Lambert, Diane Young

CORRESPONDENTS: Atlanta: David Greising (Mgr.), Nicole Harris. Boston: William C. Symonds (Mgr.), Paul C. Judge, Geoffrey Smith. Chicago: Richard A. Melcher (Mgr.), Roger O. Crockett, David Leonhardt, Andrew Osterland, De'Ann Weimer. Cleveland: Peter Galuszka (Mgr.). Connecticut: Susan Jackson. Dallas: Wendy Zellner (Mgr.), Stephanie Anderson Forest.

Detroit: Kathleen Kerwin (Mgr.), Keith Naughton, Bill Vasic. **Houston:** Gary McWilliams (Mgr.). **Los Angeles:** Ronald Grover (Mgr.), Larry Armstrong (Sr. correspondent), Steven V. Brull, Kathleen Morris. **Miami:** Gail DeGeorge (Mgr.). **Philadelphia:** Amy Barrett (Mgr.). **Pittsburgh:** Stephen Baker (Mgr.).

San Francisco: Peter Burrows, Steve Hamm, Linda Hirshstein, Robert D. Hof, Andy Reinhardt. **Washington:** Owen Ullmann (Sr. news ed.); Douglas Harbrecht (News ed.); John Carey, Paula Dwyer, Howard Gleckman (Sr. correspondents); Amy Borris, Stan Crock, Richard S. Dunham; Dean Foust; Susan B. Garland; Paul Magnusson; Mike McNamee; Stephen H. Wildstrom (Tech. & You); Catherine Yang. **Frankfurt:** Thane Peterson (Mgr.).

Karen Lowry Miller, David Woodruff. Hong Kong: Joyce Barnathan (Mgr.). **Mark L. Clifford, Bruce Einhorn. London:** Stanley Reed (Mgr.), Julia Flynn. **Mexico City:** Gen Smith (Mgr.). **Moscow:** Patricia Kranz (Mgr.). **Paris:** Gail Edmondson (Mgr.). **Rome:** John Rossant (Mgr.). **São Paulo:** Ian Katz (Mgr.). **Singapore:** Michael Shan (Mgr.). **Tokyo:** Brian Brenner (Mgr.).

Robert Nell (Contributing ed.), Irene M. Kuni, Emily Thornton. Toronto: Joseph Weber (Mgr.)

EDITORIAL SERVICES: Broadcasting: Ray Hoffman. **Business Manager:** Barbara Boynton. **Information Services:** Jamie B. Russell (Director), Karen Stevens (Mgr.), Judi Crowe, Debra Dreskin, Fred Katzenberg, Robert Roeker, Susann Rutledge, Barbara Silverbush. **Office Manager:** Roselyn Kopit. **Communications:** Robert Pondiscio (Director), Christine Summerson. **Readers Report:** Yvette Hernandez. **Reprint Permission:** Janet Gonzalez

PUBLISHER: David G. Fern

SR. VP, ASSOCIATE PUBLISHER: William P. Kupper Jr.

SR. VP, OPERATIONS: Gary B. Hoot

SR. VP, MARKETING & BRAND DEVELOPMENT: Harold K. Somerdyk

VP, STRATEGIC PLANNING & PRODUCT DEVELOPMENT: Kimberly Greer

VPS, SALES: Constance E. Bennett (International), Joanne K. Bradford (Western Region), Dan Dunn (Midwestern Region), Robert H. Kelly (Northeast Region), Louis R. Mohn (Southeast Region)

VP, STRATEGIC PROGRAMS: James H. McGraw IV

VP, SALES DEVELOPMENT: Mark A. Finn

VP, MANAGING DIRECTOR/ASIA: Stephen B. Moss

VP, MANAGING DIRECTOR/EUROPE: Fritz Krusebecker

VP, TECHNOLOGY: Thomas J. Reed

VP, CONTROLLER: Bernard J. Drackwitz

DIRECTOR, ADVERTISING BUSINESS: Linda F. Carvalho

DIRECTOR, PRODUCTION & SALES SERVICES: Mario J. Talluto

MANY DRUGS ARE NOT LIFESTYLE CHOICES

I was sorry to see such important drugs as Zyprexa, Zoloft, and Prozac included in a report on "lifestyle" drugs ("The new era of lifestyle drugs," Cover Story, May 11). I have a mentally ill relative, and I assure you that these drugs can be a lifeline for many such people. I hope their development continues, given the limitations of many of today's drugs.

Claiming that 90% of patients' requests for antidepressants are honored by physicians minimizes the relief that these drugs can bring. After the medication is administered and has brought the person into a range where traditional treatment can help, it is then appropriate to seek psychotherapeutic help.

Jeff Pearlman
Endicott, N. Y.

You too readily accept the pharmaceutical industry propaganda that impotence, memory loss, anxiety, and weight-loss drugs are merely "lifestyle" matters. The happy-face pill on the cover reinforces this view and makes light of peoples' afflictions. These pills can be abused, it's true. But impotence, obesity, serious memory loss, and the like are serious health concerns to people who suffer from them.

Michael Salwen
Coral Gables, Fla.

Your writers must be young, unusually healthy, and lacking in empathy. Why not also include cataracts, macular degeneration, multiple sclerosis, and schizophrenia on your list? After all, lots of blind people and people with MS live productive and satisfying lives, and the streets of New York are full of untreated schizophrenics.

As a 71-year-old arthritic with three major joint replacements, I am insulted by the idea that arthritis might be considered a lifestyle condition. Distinctions between "treatments" and "enhancements" are obvious only in the most

CORRECTIONS & CLARIFICATIONS

Due to a computational error, 55 companies in the Corporate Scoreboard (May 1) mistakenly appeared with a price-earnings ratio of NM (not meaningful). A correct version of the scoreboard may be found online at www.businessweek.com or America Online at keyword: BW. Or you can write to Reprints Dept./Scoreboard.

In "School for Scandal?" (The Corporate May 4), a quote taken from an analysis conference call should have been attributed to Reid R. Bechtel, CEO of Computer Learning Centers Inc.

trivial examples, such as growth hormone therapy for short people. While treatments prevent, cure, or otherwise ameliorate a pathological condition, they also enhance the quality of life. While treatment perchance makes me feel better, does this mean it won't be covered by my insurance?

Jacob C. St.
Kalamazoo, Mich.

UNIVERSAL PHONE SERVICE IS A RIGHT, NOT A PRIVILEGE

"The hidden tax in your phone" (News: Analysis & Commentary, 4) leaves the impression that consumer and long-distance carriers alike are being covertly taxed by local telecommunications. Nothing could be further from the truth.

Long ago, the country decided that it wanted a state-of-the-art, national communication system, rejecting the view that rural areas should be excluded because of the high costs associated with serving them. If universal service was not a nationally accepted policy and those Alaskans cited in the commentary had to pay the true cost of phone service, many Alaskans would not be linked to the communications highway.

The Telecommunications Act of 1994 was meant to reinforce this principle of universal service. For carriers serving low-density areas, such as some parts

Business Week

A Division of The McGraw-Hill Companies



JUNE 1, 1998 (ISSN 0007-7135) ***

3580

Published weekly, except for one week in January and one in August, by The McGraw-Hill Companies, Inc. Founder: James H. McGraw (1860-1948). Executive, Editorial, Circulation, and Advertising Offices: The McGraw-Hill Companies Building, 1221 Avenue of the Americas, New York, N.Y. 10020. Telephone: 212-512-2000. Telex: Domestic 127039; Intl. 2360127039. U.S. subscription rate \$54.95 per year; 2 years, \$79.95; 3 years, \$99.95. Single copies, \$3.95; back issues, \$5. Write for rates in other countries. Subscriber Services: 1-800-635-1200. TDD: 1-800-554-1579

Postmaster: Send address changes to BUSINESS WEEK, P.O. Box 430, Hightstown, N.J. 08520. Periodicals postage paid at New York, N.Y., and at additional mailing offices. Postage paid at Montreal, P.Q. Canada Post International Publications Mail Product Sales Agreement No. 246484.

Registered for GST as The McGraw-Hill Companies, Inc. GST #R123456789. Copyright 1998 by The McGraw-Hill Companies, Inc. All rights reserved. Printed in the U.S.A. Post Office: European Circulation Center, 1 Hill House, Maidenhead, Berks, England. Telephone: 01628-23431; Telex: 924012. Officers of The McGraw-Hill Companies, Inc.: Joseph L. Dionne, Chairman of the Board; Harold W. McGraw III, President and Chief Executive Officer; Robert J. M. Vittor, Senior Vice President and General Counsel; Robert J. M. Vittor, Executive Vice President and Chief Financial Officer; Frank D. P. Senior Vice President, Treasury Operations; Michael K. Hehir, Vice President, Information Services Group.

PHOTOCOPY PERMISSION: Where necessary, permission is granted by the copyright owner for those registered with the Copyright Clearance Center (CCC), 222 Rosewood Drive, Danvers, MA 01923, to photocopy articles herein for the flat fee of \$1.80 per copy of each article. Send payment to CCC. Copying for other than personal or internal reference without express permission of The McGraw-Hill Companies is prohibited. Address requests for customized bulk reprints to: Bulk Reprints, P.O. Box 457, Hightstown, N.J. 08520, or call 609-426-7000. ISSN 0007-7135/98/\$3.95

PRINTED IN THE U.S.A.

cess fees are not a "windfall,"
essity to providing quality, af-
service.

gh time the obstructionists to
ete and full implementation of
communications Act of 1996
gated to the sidelines. Inter-
those who cried loudest for the
station of the 1996 act are now
to accept its parameters, while
is who were reluctantly forced
ng with its passage are now
trying the hardest to see it
way lawmakers intended.

Michael E. Brunner
Chief Executive
National Telephone
Cooperative Assn.
Washington

NOTE TO SEXUAL MENT AT HARVARD

tudent at Harvard business
the mid-1950s, I observed no
sexual behavior—because
ere no female students or fac-
at time ("Man and woman at
' News: Analysis & Commen-
-11). Now that a quarter of
uate students at HBS are
he school should have antici-
ssible problems and provided
ies of unacceptable behavior
al harassment.
is particularly discouraging
s report of male attitudes to-
men is that these men are fu-
ness leaders who, presumably,
power over a broad range of
s. If these immature, insensi-
ent actions are not stopped,
t on future behavior in the
e could be great. Perhaps hir-
onal female faculty would also
male student attitudes toward
ure co-managers of the oppo-

George A. Dean
Southport, Conn.

HOLES ANALYSIS

gh Barnes & Noble Inc. com-
n Amazon.com, this doesn't sap
incentive to bring out good
ch as *Cold Mountain* and *The*
Water. And even though we
able to buy cars through the
the Big Three are no less ea-
roduce models that catch con-
ancy ("The Net: A market too
r profits," Economic Viewpoint,

int is, the kind of temporary
y that results from offering
unique quality also yields re-
at the Internet can't under-

mine. In fact, by obliterating the prof-
its that can be gotten from exploiting
imperfect markets, the Net might even
spur business to greater heights of
product innovation.

Gene Epstein
New York

Echoing Marxists past and present,
Robert Kuttner sees the Net as an
emerging institution doomed to failure
from contradictions within. Marx was
wrong, and so is Kuttner. Kuttner first

claims that the Net, with its free flow
of information, would result in "fierce
price competition" and "vanishing brand
loyalty," in particular. His example of
Amazon.com, however, shows not van-
ishing brand loyalty on the Net but
the power of it.

The still-nascent Net has already cre-
ated some powerful brand names, such
as Amazon.com and Yahoo! Would Kut-
tner have ever even heard of a Seattle
bookstore called Amazon—much less
imagine it would ever be in a position to

WillTales



"I'd say this is an effect of technological RIGIDITY.

*If we weren't safely on our way to
that Williams network, we'd be shattered."*

that **Williams** network 
11,000 fiber miles laid, lit and ready to ride.

ANALYZING INFORMATION



[WHAT YOU WANT]

Does your information offer more mystery than clarity? Then maybe you should know about Seagate's business intelligence tools. Software that lets you access, compile and analyze data, and turn it into wisdom. And then lets you easily share your brilliance (even if you say so yourself) with anyone you choose. Anywhere in the world. Seagate Crystal Reports®, Seagate Crystal Info® and Seagate Holo®. They're just some of the ways Seagate hardware and software give you information, the way you want it. To find out more, visit us at www.seagate.com/bwi.

Seagate, the Seagate logo, the tagline, Seagate Crystal Reports, Seagate Crystal Info and Seagate Holo are registered trademarks or trademarks of Seagate Technology, Inc.



[WHAT YOU WANT]

 **Seagate.**

Information, the way you want it.

Readers Report

challenge the well-established Barnes & Noble—without the emergence of the Net? No one can guarantee that any brand will last forever, and perhaps Amazon.com will disappear. But that will be due to the competitiveness of Barnes & Noble.

If I set up my own bookstore off my Web page, Podunk Books, would you buy from me? If I started selling homemade routers, would you switch from Cisco Systems Inc.? Probably not. The point is, a powerful system for exchange, such as the Net, can create and enhance, in addition to weakening, brand names. [Yet] not even the Net can replace the assurance of a brand name. No surprise, then, that the best brands on the Net, such as Microsoft Corp. or CNN, are great brands outside it as well.

The greatest invention of our time (so far) is the Internet, a revolution in the ability of humans to communicate and exchange. No one can predict with certainty what specifics will come to define this institution. Only change is certain, and change is the stuff innovators thrive on and profit from.

Gary Li
Cambridge, Mass.

Robert Kuttner gives a flawed analysis of the Internet. More to the point is that the Net is what economists call a "public good," that is, there is no additional cost involved in its use by an additional consumer; and, if accessible to one, it is accessible to all. Anyone with a properly equipped computer and provider has access to it. This is why public-finance specialists say public goods have to be provided by the government and funded from taxes: The private sector, unable to make a profit, will not provide them.

As other telecommunications have shown, however, certain public goods have room for profit. Take the case of TV shows. Although there are no additional costs with extra viewers and anyone with a TV set can watch, *Seinfeld* is handsomely financed by advertisers who find it a profitable way to reach their markets.

The Internet gives vendors a convenient, cheap, and direct means of selling their wares to a wide and growing audience. Profit margins will reflect keen competition and what the consuming public is willing to pay. At the same time, cyberspace is an ideal place for not-for-profit people and institutions, not only to make their personal or mission

statements but also to provide that valuable public good, information, society at large.

Ruben P. Men
New Y

GOOD NEIGHBORS DON'T NEED GOOD FENCES

The current border-crossing rules between the U.S. and Canada are so and outdated ("Canadians feel a fix at the border," News: Analysis & Commentary, May 4). To maintain the friendly relations the two countries have enjoyed, let's open up the border for crossing without any customs inspections. Crossing between the U.S. and Canada should be painless, like borders in Europe. With the forthcoming European Monetary Union, a strong, combined U.S.-Canada economic power comes even more important.

Kenneth Bre
Weston, Co

IS EUROPE SET TO REPEAT AMERICA'S MISTAKES?

Your story focused on the euro's potential benefits but paid scant attention

Global Business Is A Tough Job. Hiring Global Managers Shouldn't Be. Need a top performer for your international business?

Call Thunderbird, the world's best
source for global management talent.



U.S. 800-457-6982
Int'l. 602-978-7245
Fax: 602-978-1410
<http://www.t-bird.edu>
e-mail: hire@t-bird.edu



THUNDERBIRD
THE AMERICAN GRADUATE SCHOOL
OF INTERNATIONAL MANAGEMENT

15249 N. 59th Ave., Glendale, AZ 85306-6005

Ranked Number One for International Business by U.S. News & World Report
Ranked Number One for Global Business/Executive Education by Business Week

Shelley McKendry

knows not to talk during
third period, to bring a
bag lunch on Wednesday
(fish stick day) and that a
large falloff in mutual funds
inflows would be likely.

Sure we help educate your children. But we also help people grow beyond the classroom. We're over 100 brands and companies, from publishing to financial services to media. And with Business Week and Standard & Poor's, we make it easier for everybody to plan for their financial future.

www.mcgraw-hill.com

The McGraw-Hill Companies

Keeping the world up to speed.



PART #2138:

*No-Surprise Total
Cost of Ownership*



⁴For more information on our limited warranties, see our web site at www.fujitsu-pc.com

Fujitsu and the Fujitsu logo are registered trademarks and LifeBook is a trademark of Fujitsu Limited. Built for Humans and ErgoTrac are trademarks of Fujitsu PC Corporation. Intel and Pentium are registered trademarks and MMX is a trademark of Intel Corporation. Microsoft and Windows are registered trademarks of Microsoft Corporation. All other trademarks are property of their respective companies.

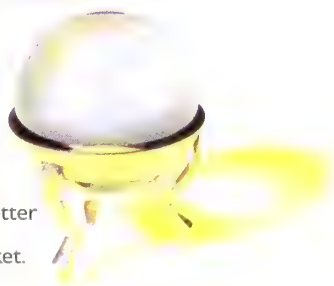
©1998 Fujitsu PC Corporation. All rights reserved.



STORY #194:

My Wonderfully Predictable Future

LET'S just say you're the CEO of a large investment firm. You've got one eye on NASDAQ, one eye on Dow Jones and four hundred hands trying to grab the best stocks in both. You also know you have to face two hundred employees who want more money, better coffee, a parking place and notebooks that can handle a volatile market.



[*"Risk is okay in my line of work, but I sure don't need it from my notebooks,"*]

is your motto. And who can't use a little more predictability? That's why Fujitsu PC Corporation offers qualified customers LifeLine, our Lifecycle Management Program for select LifeBook™ notebooks. This unique program helps you control tomorrow's technology costs today—with options like technology upgrades, aggressive lease rates and optional warranties.* So no matter what wild ride your investments might take, you can be certain that the investment you made in Fujitsu notebooks will always be a sound one.

[*"Now we all get something we can use more of around here: security,"*]

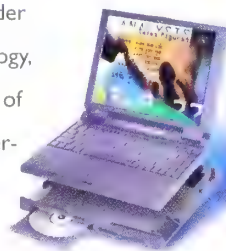
LifeLine Lifecycle Management Options

Custom Configuration to Fit Each User Requirement
12-month Technology Refresh and Asset Management
Variable Levels of Support, Including 24-hour Turnaround
and Screen Protection
Project Planning and Various Levels of Delivery

you might announce. And this is one "buy" order everyone can appreciate. Leading-edge technology, reliability and technical support. Plus the peace of mind helping you understand your cost of owner-

ship. So maybe you'll never know which stocks will perform well in the future. But now you definitely know which notebook computer will.

There are millions of Fujitsu notebooks out there—each with a story of its own.



FUJITSU

FUJITSU PC CORPORATION

Built for Humans™

For more info, visit www.fujitsu-pc.com/ce
or call 1-888-4-ON-THE-GO.



Readers Report

to the problems associated with the emergence of a two-tiered European economy and the policies that are needed to avoid them ("The euro," Special Report, Apr. 27).

I support a competitive, flexible economy where citizens are free to shape their future and achieve their potential. I fear, though, that without understanding why some people suc-

ceed and other people fail, Europe will repeat our mistakes, including growing wage and social inequality, fragmentation, and a winner-take-all mentality, which, in turn, are threats to American democracy itself.

Investments in education, environmental protection, worker training, parenting skills, and, maybe most important, controlling human population require much attention and energy. But they are necessary to achieve the harmony and happiness that are the subtext of your series.

Jeffrey S. Hurwitz
Warren, N.J.

IN KENNY TROUTT WE TRUST

Excel Communications Inc. has had growing pains, but what up-and-coming company hasn't? And there's nothing wrong with being rich, like Kenny Troutt, if you know how to use your money wisely ("He's rich. Now he wants some respect," People, Apr. 20).

Kenny's "Mama Nadine" told him: "On your way to the stars, take as many people with you as you can." And that's what he has done. He has of-

fered "average Joes" the chance to be their own bosses as independent representatives. The word "cult" is a negative one. We do not worship Kenny Troutt. We are into success. [But] we trust him to take us into the new millennium.

Wanda and Roy Fin
Claude, T

FINDING US ONLINE

BusinessWeek **ONLINE**

The full text of Business Week, the Business Week Daily Briefing, and seven years of BW archives are available on the World Wide Web at:

www.businessweek.com

and on America Online at Keyword: BW.
To sign up for BW on AOL, call (800) 641-4848
and mention Business Week

maven

Shopping for computer equipment? Visit Maven, our online Computer Buying Guide, for continuously updated ratings and price information.
Go to Keyword: Maven on America Online,
or to the World Wide Web at:

www.maven.businessweek.com

HOW TO REACH BUSINESS WEEK

LETTERS FOR READERS REPORT

All letters must include an address and daytime and evening phone numbers. We reserve the right to edit letters for clarity and space and to use them in all electronic and print editions.

Mail: Business Week, 1221 Avenue of the Americas, 39th floor, New York, NY 10020
Fax: (212) 512-6458
Internet: bwreader@mgm.com
America Online: readersbw

SUBSCRIBER SERVICES

For individual subscriptions, corporate subscriptions, renewals, changes or problems, and single copies.
Phone: (800) 635-1200 or (609) 426-7500
Fax: (609) 426-7623
Internet: bwhelp@mcgraw-hill.com

REPRINTS AND COPYRIGHT PERMISSIONS

For custom reprints (minimum order of 500) contact (609) 426-5494
Before quoting or reusing editorial material.
Phone: (212) 512-4801
Fax: (212) 512-4938

IMAGINE LIVING IN A TOTALLY UNPREDICTABLE WORLD.

And still being prepared for it.

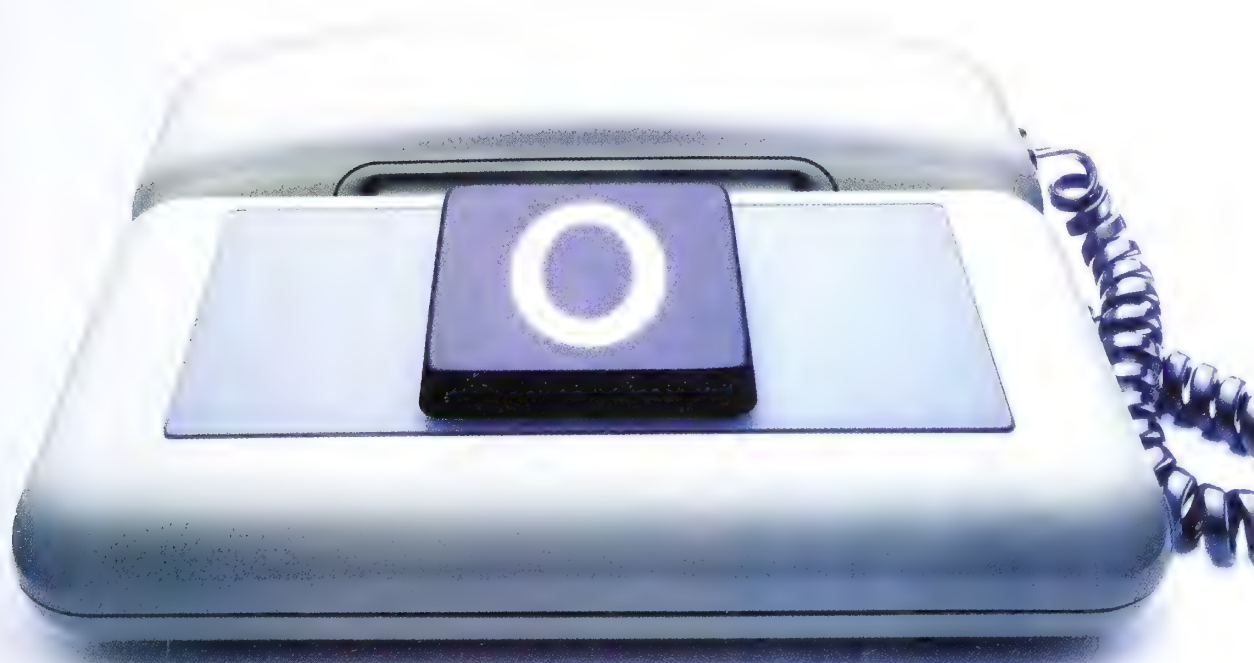
"HANG ON TO YOUR HAT AND SMASH YOUR CRYSTAL BALL." Tom Peters

It's not your imagination - it's really happening. And it's called *The Power of Corporate Kinetics*, the first new business model for today's unpredictable world. Learn how leading companies and people everywhere are starting to become self-adapting, self-renewing and poised for instant action.

The Power of Corporate Kinetics - the definitive guide for an unpredictable world.



Starting June 19 when you call Italy just add a zero.



What number is easier to remember than zero?

Starting on June 19, when you call Italy, just add a zero to the area code. So, for example, from that date on, if you want to call Milan, +39 2 5555555 will become +39 025555555.

Nothing could be simpler!

+39 0 255555555

The Italian telephone system has chosen this way to celebrate its entry into Europe, in line with the Community Directive on the liberalization of the telecommunications market.

From June 19 on, if you're calling the most beautiful country in the world, just remember the zero!



THE BUSINESS WEEK BEST-SELLER LIST

HARDCOVER BUSINESS BOOKS

- 1 **THE 9 STEPS TO FINANCIAL FREEDOM** by Suze Orman (Crown • \$23) *Practical and "spiritual" steps for managing money.*
- 2 **THE MILLIONAIRE NEXT DOOR** by Thomas J. Stanley, PhD, and William D. Danko, PhD (Longstreet Press • \$22) *The penny-pinchers shall inherit the earth.*
- 3 **THE GORILLA GAME** by Geoffrey A. Moore, Paul Johnson, and Tom Kippola (HarperBusiness • \$26) *Spotting high-tech stocks that dominate their market niches.*
- 4 **DIE BROKE** by Stephen M. Pollan and Mark Levine (HarperBusiness • \$25) *Forget about the will—and the conventional wisdom, says a financial adviser.*
- 5 **THE ROARING 2000s** by Harry S. Dent Jr. (Simon & Schuster • \$25) *The good times keep on rollin'.*
- 6 **BLUR** by Stan Davis and Christopher Meyer. (Addison-Wesley • \$25) *Finding focus in a world of constant change.*
- 7 **SELLING THE INVISIBLE** by Harry Beckwith (Warner • \$15) *A collection of bite-size lessons on marketing.*
- 8 **HOW TO RETIRE RICH** by James O'Shaughnessy (Broadway • \$25) *Number-crunching your way to the golden years.*
- 9 **REACH FOR THE SUMMIT** by Pat Summitt with Sally Jenkins (Broadway • \$25) *Drills for success from the coach of the University of Tennessee's Lady Vols.*
- 10 **WALL STREET MONEY MACHINE** by Wade B. Cook (Lighthouse Publishing • \$24.95) *A former cab driver's formulas for striking it rich.*
- 11 **JACK WELCH SPEAKS** by Janet Lowe (Wiley • \$16.95) *Quotes from GE's man, culled from speeches, news stories, and his own writings.*
- 12 **BUFFETTOLOGY** by Mary Buffett and David Clark (Scribner • \$27.50) *An ex-daughter-in-law's take on Buffett's techniques.*
- 13 **FINANCIAL PEACE** by Dave Ramsey (Viking • \$21.95) *Getting out of debt—for good.*
- 14 **YOU HAVE MORE THAN YOU THINK** by David and Tom Gardner (Simon & Schuster • \$25) *Help for the investment-challenged.*
- 15 **I'D LIKE THE WORLD TO BUY A COKE** by David Greising (Wiley • \$24.95) *The life and career of the late Coca-Cola CEO, Roberto Goizueta.*

PAPERBACK BUSINESS BOOKS

- 1 **THE SEVEN HABITS OF HIGHLY EFFECTIVE PEOPLE** by Stephen R. Covey (Fireside • \$12) *Habitually popular.*
- 2 **THE MOTLEY FOOL INVESTMENT GUIDE** by David and Tom Gardner (Fireside • \$12) *The online duo puts it on paper.*
- 3 **SUCCESS IS A CHOICE** by Rick Pitino with Bill Reynolds (Broadway • \$13) *Coach says work harder, harder!*
- 4 **THE 1998 WHAT COLOR IS YOUR PARACHUTE?** by Richard Nelson Bolles (Ten Speed Press • \$16.95) *The enduring job-search bible.*
- 5 **THE MOTLEY FOOL INVESTMENT WORKBOOK** by David and Tom Gardner (Fireside • \$12) *"So where do I find stocks?" and other queries, asked and answered.*
- 6 **THE WALL STREET JOURNAL GUIDE TO UNDERSTANDING MONEY AND INVESTING** by Kenneth M. Morris and Alan M. Siegel (Fireside • \$13.95) *Concise explanations enriched with graphics.*
- 7 **INVESTING FOR DUMMIES** by Eric Tyson, MBA (IDG Books • \$19.95) *From stocks to small business—with cartoons, too.*
- 8 **BARRON'S DICTIONARY OF FINANCE AND INVESTMENT TERMS** by John Downes and Jordan Elliot Goodman (Barron • \$11.95) *What is an oligopsony anyway?*
- 9 **THE ERNST & YOUNG TAX GUIDE 1998** by the Tax Partners and Professionals of Ernst & Young LLP (Wiley • \$15.95) *Time's up, folks.*
- 10 **BUILT TO LAST** by James C. Collins and Jerry I. Porras (HarperBusiness • \$14) *How 3M, Wal-Mart, Procter & Gamble, and others became standouts.*
- 11 **PERSONAL FINANCE FOR DUMMIES** by Eric Tyson (IDG Books • \$19.95) *Lighthearted primer.*
- 12 **YOUR MONEY OR YOUR LIFE** by Joe Dominguez and Vicki Robin (Penguin • \$11.95) *To achieve financial independence, restructure your life.*
- 13 **GETTING TO YES** by Roger Fisher, William Ury, and Bruce Patton (Penguin • \$11.95) *A Harvard team's step-by-step guide to conflict resolution.*
- 14 **THE PRINCESSA** by Harriet Rubin (Dell • \$9.95) *Rules for women's success, demonstrated by heroines past and present.*
- 15 **HOME BUYING FOR DUMMIES** by Eric Tyson and Ray Brown (IDG Books • \$16.99) *Getting your dream house.*

BUSINESS WEEK's Best-Seller List is based on a survey of chain and independent booksellers that carry a broad selection of books on economic management, sales and marketing, small business, investing, personal finance, and careers. Well over 1,000 retail outlets nationwide are represented. Current rankings are based on a weighted analysis of unit sales in April.

Reviews and more are available on AOL (Keyword: BW) or www.businessweek.com (Click on BW Plus!)

HOT TYPE FOR HARRY S. DENT JR., DEMOGRAPHY IS destiny. And in *The Roaring 2000s*, No. 5 on this month's best-seller list, he says we're on the edge of the greatest burst of prosperity in human history. What's behind the boom? The boomers.

That generation, he says, is moving into its years of peak productivity, earning, and spending, detonating an explosion of affluence. New technologies will compound the gains. And adding to the excitement, "the Internet Age" will see old corporate forms blown away by more responsive "network organizations." In these, "front-line human browser teams" will connect customers with "specialized products and experts."

Hot stuff, huh? Most readers will find Dent's effort unorig-

inal and overstated. Much of his demographic analysis, for example, centers on a supposed contrast between an innovative "Henry Ford generation" of the 1920s and the conformist 1950s "Bob Hope generation," a group best suited for institution-building. There are lots of unsourced charts and graphs to amuse and confuse.

Dent concludes with a chapter of "investment strategies for The Roaring 2000s." A sampling: "Save at least 10% of your pretax income" and "mutual funds are the best vehicle for most." Whaaa? Is that the best way to approach "a Dow that will reach at least 21,500 and likely higher"? I mean, what does Dent think he's talking to—the Bob Hope generation?

BY HARDY GREIN

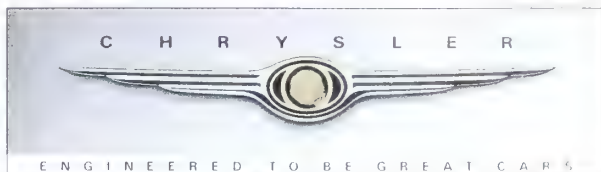
Everything you expect in a luxury car.



Well, not everything. It's just \$18,995*.

The 1998 Chrysler Cirrus.

There are cars that are built to appeal to your passionate side—and to your practical side. The 1998 Chrysler Cirrus. For the passionate side: ■ fully independent suspension ■ multi-valve V6 engine ■ speed-sensitive steering ■ air conditioning with rear-seat vents ■ premium six-speaker sound system ■ power windows, mirrors and door locks ■ cab-forward design with room for you and four friends ■ and, at no extra charge, a new, luxurious, glove-soft leather-trimmed interior ■ and eight-way power driver's seat. Now for the practical side. The new 1998 Chrysler Cirrus LXi, with all this, is just \$18,995[†]. Now that's unexpected. Call 1.800.CHRYSLER for details.



[†]after \$1,000 cash back includes destination. Excludes tax. www.chryslercars.com

COLD NEW WORLD

Growing Up in a Harder Country

By William Finnegan

Random House • 421pp • \$26

YOU'RE ON YOUR OWN, KID

In the years following World War II, a huge number of Americans moved up to the middle class. This was due largely to the G. I. Bill of Rights, which paid veterans' college tuition and living allowances and gave them no-downpayment mortgages. But it was also due to an expanding economy, higher wages, and a growing foreign market for American goods.

Now, the children of that postwar generation, the baby boomers, are raising kids of their own in a much different world. Despite the booming stock market, low inflation, and low unemployment, real hourly wages for the majority of working Americans have fallen for a quarter-century. For many young people, this is a world cursed by alcohol and drugs, teen pregnancy, unstable marriages, racist gangs, and, in the words of William Finnegan, "trendy nihilism."

Cold New World is Finnegan's exploration of this environment and of a generation of young people seemingly bent on self-destruction. In six years spent "knocking around the United States," the *New Yorker* magazine writer got close to these youths, their friends, and their families. Among the factors responsible for the young folks' problems, the author says, are "the fecklessness and self-absorption" of his own baby-boomer generation and global economics. Together, such forces have combined to leave kids culturally and economically dislocated. Finnegan's solution seems to involve a return to the days of liberal government programs. But whether you agree with his politics or not, his deft profiles can be both moving and downright frightening.

His four primary subjects come from widely disparate backgrounds, yet each one is both victim and collaborator in his or her own sad story.

■ Sixteen-year-old Terry Jackson lives in

the black ghetto of New Haven. A high school dropout and a child of a drug-addicted welfare mother, he is a \$1,000-a-week "work-boy" for the local drug dealers. It is dangerous work. Shootouts are common, and most of the victims are teenagers.

■ Juan Guerrero, 18, is a son of Mexican farmworkers and militant unionists in the Yakima Valley of Washington state. His parents say they "only want what the whites have...normal benefits, job security, an end to discrimination, dignity." Not so Juan, who has opted for what Finnegan terms "*la vida loca*"—the crazy life. A Tae Kwon Do black belt, Juan is expelled from school for fighting, spends 10 months in detention for assault, then takes up work in the grape fields. His steady pal is Mary Ann Ramirez, an unwed mother who has been on drugs since the eighth grade. When Finnegan first meets this pair, they are into "wall hits"—sucking gasoline fumes out of a plastic bag until they faint.

■ Mindy Turner, 17, lives in once-flourishing Antelope Valley, Calif., a region plagued by cutbacks in aerospace and defense. The rates of teen pregnancy and juvenile crime are high. Mindy, sexually active and a drug user since the seventh grade, is now into methamphetamine, or "speed." Her suppliers are a local skinhead gang, the Nazi Low Riders.

■ Lane Mitchell is a 23-year-old black divorcee who works as a chicken plucker in a Tyson Foods Inc. plant in "Deep East Texas." Even though she got off to a bad start by becoming pregnant in high school, she longs for those days and her "good old-fashioned country upbringing." Everything headed downhill,

she believes, when her small town, San Augustine, became a major drug center.

One of the most interesting characters in *Cold New World* is neither youth nor a parent. He is Nathan Tindall, the all-powerful sheriff of San Augustine County for almost 40 years. Tindall was, moreover, an astute businessman, Finnegan says, grossing \$2 million a year from diverse endeavors. These included, other authorities suspect, money-laundering and bribes from drug dealers.

A white man, Tindall enjoyed warring relations with his numerous black constituents. That paid off when he escaped the net of Operation White Tornado, a massive, multijurisdictional drug bust that jailed 54 local citizens, 50 of them black. The chief target of the raid, Tindall was never arrested or charged since none of his black friends would testify against him, Finnegan writes.

At the time of the drug probe, Tindall had recently been voted out of office.

He had been a most unusual sheriff: He never carried a gun and made arrests by phoning alleged perpetrators, even murderers, to tell them to meet him in the jailhouse. Such was the power of his personality that most complied. In 1984, while his election loss seemed richly deserved, it may have occurred for the wrong reason: Whites resented Tindall's rapport with blacks. Even some blacks had criticisms. "He never did enough to stop the drugs that's hurting our people," Lane Mitchell reflected.

After exposure to these cases, you will be surprised by Finnegan's despair over young people's prospects. Ultimately, he blames government, which he feels has abdicated its role as provider of last resort. "For those of us who grew up during the long postwar boom, it is easy to forget just how large a role government programs played in the spread of mass prosperity," Finnegan says. That's true, but even in the politics of the day, not even a book as powerful as Finnegan's is likely to revive Big Government liberalism.

BY RESA KATZ

King covered urban problems for *BUSINESS WEEK* for more than 30 years.

COLD NEW WORLD

Growing Up in a Harder Country



WILLIAM FINNEGAN

FINNEGAN PROFILES YOUNG PEOPLE DONE IN BY DRUGS AND ABANDONED BY THE GOVERNMENT

STEPHEN H. WILDSTROM

WEAVING THE WEB INTO YOUR TV

You can watch *ER* as it's broadcast. You can send E-mail. It's all pulling in shows to your PC.

For a couple of years now, "convergence"—the idea that computer and home entertainment converge—has been buzzing and the high-tech industry has been pushing it. I've always been dubious about the notion, and judgment by the sluggish sales of convergence products such as Gateway 2000's Destination Entertainment PCs, so I've been skeptical. But after trying out flavors of Microsoft's WebTV—the television-based WebTV Plus and WebTV for Windows component of Windows 98—it's clear to me that adding Internet features to a television is a better idea than turning a TV set into a computer terminal. The current WebTV Plus version, released after Microsoft bought the company last year, subtly changes the concept to make the Internet an adjunct to TV viewing, especially as a way to get complete local program listings.

I tested WebTV using the original 1996 version. WebTV was an inexpensive way to turn a TV set into a computer terminal. The current WebTV Plus version, released after Microsoft bought the company last year, subtly changes the concept to make the Internet an adjunct to TV viewing, especially as a way to get complete local program listings.

I tested WebTV using the original 1996 version. WebTV was an inexpensive way to turn a TV set into a computer terminal. The current WebTV Plus version, released after Microsoft bought the company last year, subtly changes the concept to make the Internet an adjunct to TV viewing, especially as a way to get complete local program listings.

screen is customized to provide easy access to neighborhood movie and restaurant listings.

The best feature, however, is a detailed TV program guide, automatically downloaded overnight, that lets you watch TV in a window while you browse listings of current and upcoming shows. You also can link to the Web for more information on programs, a feature useful mostly to retrieve facts about movies from the Internet Movie Database (www.imdb.com).

WebTV probably has a limited life span as a stand-alone product. Its hardware will be incorporated into set-top boxes, such as the ones being designed around Microsoft software for Tele-Communications Inc., and a seamless connection to the Web over a fast cable link will greatly enhance its features.

By contrast, WebTV for

Windows, a feature that is included on the Windows 98 CD, strikes me as a curious product. First, you need a compatible TV tuner card. Currently, only the \$279 ATI All-in-Wonder Pro—a combined display adapter and tuner—works, but more hardware will be available by the time Win98 ships in late June. When connected to cable, this lets you watch TV on your PC and, using an existing Internet account, download a WebTV-like localized program guide.

After some installation

or in a small window, ranges from mediocre on standard monitors to awful on flat-screen displays. I might occasionally want to watch a ball game in a small window while I work in the evening, but a little TV set would do the job better, more cheaply, and with less trouble. You might want to make your PC the heart of a home entertainment center, but be warned that getting a TV tuner and a DVD player working on the same computer is likely to be a daunting challenge.

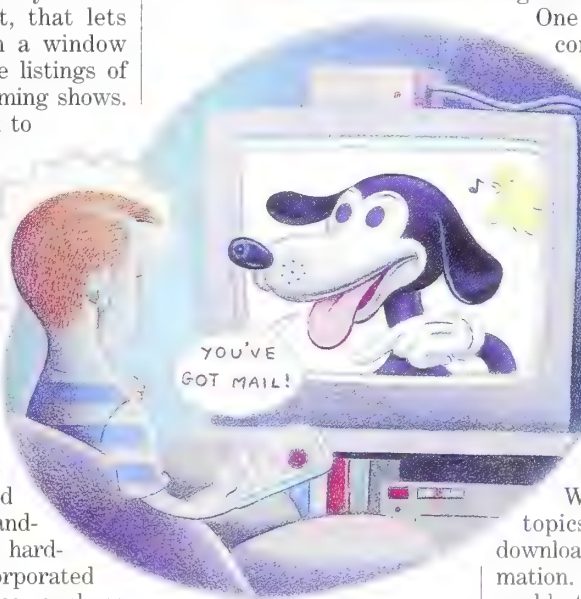
One Win98 feature that comes along with

WebTV has the potential to be more useful. WaveTop, a service of a company called WavePhone, puts Web-style news and information on an unused part of the TV signal called the vertical blanking interval. That, combined with the reader bundled with Win98, lets you select

topics of interest and download and view the information. Unfortunately, I was unable to test it because our office cable system doesn't carry any of the PBS channels that distribute the WaveTop data.

Microsoft could be right that TV features on PCs are the coming thing, but PC makers aren't buying the notion. I don't know of any leading desktop manufacturer that currently plans to make tuners standard, or even factory options.

WebTV Plus is a cheap way for people who don't have PCs to get on the Internet, or to enhance TV viewing for folks who do. (The cost drops to \$10 a month if you already have an Internet account). But WebTV for Windows seems like an idea whose time is not yet here.



glitches, the hardware and software worked fine. But I'm left wondering just why I would want to turn a PC into a very expensive and not very good television. The quality of TV images on PCs, whether displayed full-screen

THE COST OF CONVERGENCE

WEBTV PLUS		WEBTV FOR WINDOWS	
TV SET	\$300-400	PC	\$1,000-2,000
CABLE SERVICE	\$30/mo.	TV TUNER CARD	\$100-300
INTERNET TV TERMINAL BOX	\$200	WINDOWS 98	\$90*
WEBTV ACCOUNT/INTERNET SERVICE	\$20/mo.	INTERNET SERVICE	\$10/mo.
TOTAL	\$500-600 + \$50/mo.	TOTAL	\$1,100-\$2,390 + \$40/mo.

*Might come with new PC

**FOR THE
BEST DIGITAL
DOCUMENT
HANDLING
SOLUTIONS,
HERE ARE
TWO NUMBERS
TO CALL.**



Savin

1-800-234-1900

XEROX

1-800

(Hey, we may be competitive, but we're not stupid.)



At Savin we believe we offer some of the best document handling solutions around.

After all, like you-know-who, we too have the forward-thinking, award-winning technology essential to boosting productivity in today's digital offices. With fast, versatile, connectable digital imaging systems that allow you (or your workgroup) to print, sort, duplex and staple — right from your desktop. And full-color imaging systems that turn electronic documents into brilliant hard copy.

But advanced digital technology is just the beginning. Because at Savin we're dedicating ourselves to becoming the fastest, most responsive, most easy to work with name in the business. With smart, energetic Savin professionals willing to do whatever it takes to give you the satisfaction and service you deserve.

To find out more about the company with the technology and attitude that will win you over, call us at 1-800-234-1900 or contact us online at www.savin.com. And that other number? Sorry, you'll have to look it up.



Savin

WE'VE GOT WHAT IT TAKES TO WIN YOU OVER™

SAVIN CORPORATION, 333 LUDLOW ST., STAMFORD, CT 06904

BY LAURA D'ANDREA TYSON

JUST HOW NEW IS THE 'NEW ECONOMY'?



CAUTION:
There's a
new economy,
but its
behavior may
be similar
to the
"old economy"

The American economy is almost at the halfway mark for 1998 and continues to outperform predictions. The stream of outstanding news—unemployment at a 28-year low, quiescent inflation, stronger than expected growth, rising real wages, and surging share prices—has triggered a heated debate. Is there a new economy shaped by global competition and technological marvels to which such basic economic tenets as the law of supply and demand no longer apply? Or has the "old" American economy been enjoying what Federal Reserve Governor Lawrence H. Meyer calls "temporary bliss factors." Has the economy's long-run growth potential permanently improved, or is the economy on a temporary high induced by the economic equivalent of Viagra?

Clearly, economists who confidently predicted that inflation would accelerate if the unemployment rate fell below 6% were wrong (with any luck, they may have learned some humility, although I doubt it). The unemployment rate has been below 5.5% for more than a year and a half, and the inflation rate has been falling, not rising. What happened to that mainstay of macroeconomic theory—the trade-off between inflation and unemployment? Several things.

Declining computer and oil prices, a strong dollar, and a slowdown in benefits costs together have kept a lid on inflation. And despite tight labor markets, wage increases have been surprisingly modest, probably reflecting persistent worker insecurity in an age of corporate downsizing and technological change.

SQUEEZING MARGINS. But none of these factors have negated the law of supply and demand. Wages still have been posting moderate gains at an increasing rate. With an unemployment rate of 4.3%—1.5% for college-educated workers—the question is not whether wages will continue to climb but at what pace? Indeed, will wage growth outstrip productivity growth, pushing prices up for some products and squeezing profit margins for others?

Optimists seize on the fact that productivity climbed at an annual rate of nearly 2% in 1996 and 1997, double the rate the economy experienced since the 1970s. They also point out that productivity growth accelerated during the last two years, reversing the pattern of deceleration that's characteristic of mature

economic expansions and hinting at a possible long-term productivity improvement.

Pessimists observe that it is dangerous to base predictions on two years of data, especially when average productivity growth over the life of this expansion has been about the same as the expansion of the 1980s.

Productivity growth is the key variable not only in the trade-off between inflation and employment but also in the economy's long-run growth performance. Over time, output growth is determined by the expansion in the labor force and the improvement in productivity. During the last few years, the labor force has increased more rapidly than expected but with labor markets extremely tight and the employment-to-population ratio at an all-time high, labor-force growth is expected to decline to a demographically determined rate of about 1.1%. This yields a long-run growth prediction of about 3%, if the productivity optimists are correct, and about 2% if the productivity pessimists are on target.

"BLISSFUL" SCENARIO. So, is there a new economy or not? I am a cautious optimist. Modern technologies are changing our working and personal lives in marvelous ways. Production processes are more flexible, inventories are leaner, and there is a dizzying choice of quality products available to consumers at a wide range of prices. Like many economists, I have reduced my estimate of the rate of unemployment at which inflation will accelerate to between 5% and 5.25%. I remain hopeful that technology, globalization, a balanced budget, and enhanced educational attainment may increase the productivity growth rate to about 1.5% in the years to come—an improvement of 50%.

Such an outlook implies that my "blissful" scenario for the U.S. economy over the next few years is a soft landing to a growth rate of about 2.5%—not bad, but not much different from the average 2.4% enjoyed over the last 20 years. But the economy's new flexibility may nurture smoother growth over time. What is blissful for a dismal scientist like myself may prove disappointing for investors whose expectations appear to rest on even more optimistic assessments of the new economy. Let's hope that if they're disappointed they don't react in ways that occasion a less-than-graceful final act to what has been a remarkable fin-de-siècle performance by the American economy.

ow Clarify is helping Toyota use customer service
to rev up sales.

Carole Pedriana, National Manager, New Era Business Project



Toyota and Lexus vehicles are renowned for their quality. Carole Pedriana's charge is to ensure that the same level of quality is built into each call center interaction. "Our call centers are a very special touch point. Clarify lets us provide personalized service from the first inquiry through purchase, delivery and ongoing vehicle service. Taking good care of our customers makes them advocates for life. Service leads to loyalty. And loyalty translates to sales. That made Clarify a wise investment for us. They believe in building long-term relationships just like we do. And they're also absolutely passionate about quality. That's talking our language."



CLARIFY

Sales and Service Solutions that work.

1-888-CLARIFY
www.clarify.com

Clarify's front office solutions automate processes in sales and marketing, customer service, field service and logistics, quality assurance and help desks.



"YOU'VE GOT THE WHOLE WORLD IN YOUR HAND BECAUSE"

FOCUS

NUMBER

SERIES

COMPANY

POSITION

NAME

NET PROFILES

MARK WIESENBERG

052

DIRECTOR, COMPUTER SERVICES

NETWARE

NOVELL DIRECTORY SERVICES

QUALCOMM



DETAILS

GOT OUR WHOLE NETWORK ON MY DESKTOP."

Mark Wiesenberg knows all about bringing things down to size.

His company, QUALCOMM, is putting the power of advanced digital wireless communications into the palm of your hand with its compact CDMA digital Q[™] phone.

And his network, Novell[®], is putting the power of seamless networking right onto his users' desktops.

Novell NetWare[®] software supports over 4,000 users on a single server, and scales up easily as 200 workstations are added every month. And Novell Directory Services[™] technology allows his administrators to manage the entire network from a single site (including NT, Mac[®], Sun[®] and UNIX[®] platforms).

Shrinking the world is hard work, which is why a fast-paced, fast-growing company like QUALCOMM works only with the best. That's why they chose Novell.

World. Network. QUALCOMM. Novell. Hand in hand, desktop to desktop, a revolution in technology.

www.novell.com

Novell

SOLUTIONS

© Copyright 1998 Novell, Inc. All rights reserved. Novell and NetWare are registered trademarks and Novell Directory Services and Novell are trademarks of Novell, Inc. in the United States and other countries. QUALCOMM is a registered service mark and registered trademark and Q is a trademark of QUALCOMM Incorporated. The stylized Q logo is a trademark of QUALCOMM Incorporated. Options depend on services available for your carrier. All other names are registered trademarks or trademarks of their respective owners.

BY PETER COY

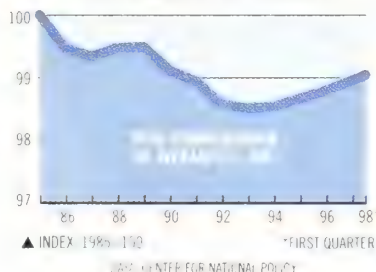
WHY PAYROLLS ARE SNEAKING UP

More new jobs are higher-wage

The Labor Dept.'s widely quoted employment cost index (ECI) has been flashing reassuring news to inflation fighters recently: By its measure, average total employee compensation rose just 0.8% from the first quarter of 1997 to the first quarter of 1998. But the ECI has a weakness: For purposes of comparing different time periods, it makes the simplifying assumption that there is no change in the mix of jobs. Lately, though, the number of high-paying jobs has grown faster than the number of low-paying ones. So employers' average payroll costs are rising more than the ECI shows.

The changing mix of jobs is captured by a "Job Quality Index" that has been pioneered by Harvard University labor economist James L. Medoff. His index, published by Washington's Center for National Policy almost simultaneously with the employment cost index, fell

A REBOUND IN THE 'JOB QUALITY INDEX'



steadily from 1985 to 1994 as the economy shifted to ever more low-paying service jobs. It has been rising, however, since then—as the proportion of high-paying positions rises. For example, the ratio of World Wide Web programmers to telephone operators is steadily climbing.

The growth in the Job Quality Index has come almost entirely in its wage component. The pension and health-benefits components continue to lag behind. Medoff says this is partly a result of America's trend away from traditional union jobs, which offer generous fringe benefits.

The Job Quality Index has its own peculiarities, to be sure. While adjusting

for the changing job mix, it assumes for calculation purposes that the pay for various jobs is fixed. That's why the index is actually lower now than in 1985, compared with a rise of 58% for the ECI.

The ideal measure would be one that captures both the change in pay for given jobs and the change in mix of jobs. In fact, such a thing exists: It's the Labor Dept.'s measure of "employer costs for employee compensation," and it's an actual dollar-per-hour figure, rather than an index. But it's issued only once a year, based on data gathered in March. In contrast, the better-known ECI comes out quarterly.

WHAT MAKES THE DOOR SO GOLDEN

Social Security favors immigrants

Well-paid newcomers who arrive in the U.S. during their prime earning years get a better deal out of Social Security than do native-born Americans who earn at the same level. That's the conclusion of a National Bureau of Economic Research working paper by economists Alan L. Gustman of Dartmouth College and Thomas L. Steinmeier of Texas Tech University.

Gustman and Steinmeier say that well-paid immigrants benefit from Social Security's practice of treating their time outside the U.S. as years of zero earnings. That drags down their lifetime average annual income, making them appear to be low-income earners. Social Security's formula is tilted toward helping people who have had lower incomes. So during the years they do work within the Social Security system, each dollar of their pay earns them more retirement benefits than are earned by a native American who is being paid the same amount but has spent an entire career in the Social Security system.

The immigrant anomaly is similar to the "double-dipping" that used to benefit civil servants who spent most of their careers outside the Social Security system, then took private-sector jobs for a decade or so and won generous Social Security benefits. Congress has since plugged that loophole.

The authors conclude that Social Security's benefit formula should be adjusted. Earnings should be averaged over just the years an immigrant has lived in America, they say. Then, they say, benefits should be prorated based

on what share of a 35- or 40-year base period is spent in the U.S.

By doing that, say the authors, immigrants would receive the same rate return on their Social Security taxes as native Americans who have the same earnings in each year. They applied their formula to a sample of native and immigrant Americans born from 19 to 1941 and found that it reduced benefits of immigrants by 7% to 15%. For immigrants who entered in the 1980s the reduction was more than 30%.

THE POOR GET DEEPER IN DEBT

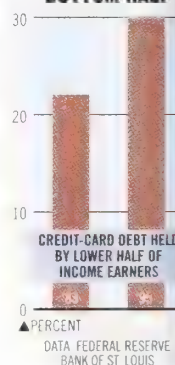
Their credit-card burden is rising

It is no secret that as the economy keeps rolling along, consumers are taking on more and more debt on the plastic. What's less well known is that the burden of that debt is shifting toward those least able to pay. In 1995, households with below-median income held 22% of all credit-card debt in the U.S. By 1995, their share had risen to 30%. Their average credit-card debt rose 14% a year from 1992 to 1995, vs. 8% annual growth for households in the upper half.

The gloomy figures are contained in a study by Peter S. Yoo, an economist at the Federal Reserve Bank of St. Louis, based on the Fed's triennial Survey of Consumer Finances. Yoo, however, chooses to accentuate the positive. He says that most of the risen outstanding credit-card debt comes from increases in average balances, rather than in the number of people holding credit cards. To be specific, the number of households with credit cards grew 2.4% a year from 1992 to 1995, while the average balance grew at a much rapid rate of 9.6%.

Yoo says that's good news because people who already use credit cards presumably know how to handle them better than people signing up for the first time. That may be true—but the high balances carried by lower-income households could prove crushing if the economy slows down.

A SHIFT TO THE BOTTOM HALF



DATA: FEDERAL RESERVE BANK OF ST. LOUIS



Ever since Catherine Baker
switched to State Fund, she can take off
for more than just a coffee break.

tal freedom. It's what you feel when you know State Fund is taking care of your workers' compensation
insurance. Maybe that's because State Fund has over 80 years experience - that's more than any carrier in
California. And with offices statewide, personalized help is never very far away. No wonder we're the choice
over 220,000 employers. For more information, just call your broker or 1-888-STATE FUND.

STATE
COMPENSATION
INSURANCE

Get more. Worry less.

FUND

SOME WILL WELCOME IT.

OTHERS WILL INSIST THE WORLD IS STILL FLAT.



The Electric Car is here. Can you see that?

Can you see that the world might now be wonderfully different? That cars can run on something besides gasoline. That the sky can begin to fight its way back to blue. That our children can have a clean start.

Maybe you can't see that.

We've been driving and thinking the same way for nearly a hundred years. Why would someone want to change all of that? Things aren't that bad, are they? Gasoline doesn't cost that much, does it?

What's wrong with the car I drive now?

The EV1 has no engine. It needs no tune-up. Or oil change. Or smog check. It does, however, have a motor. An electric motor with just one moving part that needs zero maintenance.

Would you like to hear more?

The Electric Car is nearly silent. All the usual noises have been replaced by the wind slipping across the most aerodynamic production car ever made. One which produces a drag coefficient of 0.19. A mere whisper.

Acceleration is pure and instantaneous. No shifting or jerking. Just press the accelerator pedal and go. 0 to 60 in less than 9 seconds. The EV1 even creates its own electricity. Coast and the motor automatically converts to a generator. Apply the brakes and kinetic energy is captured and returned to the batteries.

It can't be more real.

You can see the electric car. You can touch it. You can drive it. You can park it in your garage. And in doing so, the world might now be wonderfully different.

Surely you can see that. Can't you?

THE ELECTRIC CAR IS HERE. 1.800.25ELECTRIC or www.gmev.com



give

a man a fish,
he eats for
a DAY.

Teach a man to
fish, he eats for
a lifetime.

enlighten

him further,
he owns a
chain of
seafood
restaurants.



where do you want to go today?*

Microsoft www.microsoft.com

©1997 Microsoft Corporation. All rights reserved. Microsoft and Where do you want to go today? are the registered trademarks or trademarks of Microsoft Corporation in the United States and/or other countries.

JAMES C. COOPER & KATHLEEN MADIGAN

WHAT JOLT YOU FEEL IS A SLOWDOWN

The economy is losing steam, but probably not for long

U.S. ECONOMY

The rumbling that you hear is not Godzilla tearing up the line. It's the U.S. economy grinding its transmission to a lower gear.

After an explosive performance in the first quarter, business activity is throttling down, especially in the manufacturing sector. The latest data on industrial production show significantly less growth, and housing is less bubbly than it did last quarter.

While April data are sparse, what numbers are available suggest that the economy this quarter is growing about half the 4.2% annual rate posted in the first. At the same time, inflation remains tame, especially in goods, although prices outside of energy and food are rising a shade faster so far this year than they did in 1997. In particular, service prices picked up noticeably in April, although it's too early to tell whether that was a one-month fluke or a nascent trend.

A STEADY WORSENING IN THE TRADE GAP



How long the slowdown will last—and the prospects for inflation—were undoubtedly key topics of discussion at the Federal Reserve's May 19 policy meeting. As expected, the Fed left short-term interest rates on hold. But the debate was likely intense, reflecting a clash of disparate economic beliefs.

Part of the slowdown is simply payback for a weather-related spurt in domestic demand and a large buildup in inventories that occurred in the first quarter. Another link comes from the continued drop-off in demand for U.S. goods in Asia. The trade deficit continued to widen in March (chart), and that is the main source of softness in manufacturing.

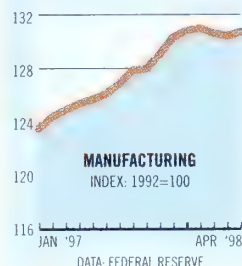
Another crucial element in the Fed's debate is sure to have been Asia. Market jitters over social unrest in Indonesia, uncertainty about Japan's financial health, and questions about Asia's impact on the U.S. economy probably gave the policymakers some leeway to hold their fire. Moreover, Fed Chairman Alan Greenspan had made no public hints of a coming change in policy, as most Fed watchers would have expected him to do.

Not surprisingly, Asia's initial knock to the U.S. economy has been through trade. The March trade gap widened to \$13 billion from a revised \$12.2 billion in February. Exports grew by 3.3%, to \$79.4 billion, but imports rose by a larger 3.8%. The trade deficit with Asia's newly industrialized nations deteriorated sharply in the first quarter compared with a year ago. The gaps with Japan and China also worsened.

The wider trade gap took some air out of the U.S. economy last quarter. In its assumptions for first-quarter gross domestic product, the Commerce Dept. had projected that the March merchandise trade deficit would be smaller than February's. Instead, the gap grew significantly. That suggests that when the revision to real GDP is released on May 28, the data will show a greater widening in the net-exports deficit. And the initial net exports figure had subtracted 2.2 percentage points from GDP growth.

Worse still, the drag from trade is continuing this quarter. Asia's problems have depressed demand for U.S. exports, while Asian goods—made cheaper by currency devaluations—are flooding into the U.S. The trade surplus in services is also shrinking, but Asian fallout is landing bigger blows on manufacturers.

ASIA FLATTENS OUT FACTORY PRODUCTION



INDUSTRIAL PRODUCTION edged up only 0.1% in April. The gain was held down by declines in mining and utilities, while manufacturing production rose 0.3%. However, factory output has slowed sharply, having fallen in both February and March. After surging at an 8.1% annual rate in the fourth quarter, production rose at just a 2% pace in the first, and April's output level was no higher than the first-quarter average (chart).

Much of that flattening out reflects the first quarter's drop in exports, the first such decline in four years. However, some of the cutbacks may also signal that companies are starting to trim inventories after their huge runup in the first quarter. Stockpiles held by manufacturers, wholesalers, and retailers rose 0.5% in March. For the quarter, inflation-adjusted inventories appear to have grown much faster than the rapid \$77 billion annual rate reported in the initial GDP data.

Moreover, inventories last quarter grew faster than the robust gain in sales. The largest increase in stock-

piles relative to sales, however, occurred in wholesale trade. The inventory-sales ratios in manufacturing and retailing were stable. This pattern suggests that imports accounted for much of the inventory buildup.

To the extent that this is true, the burden of reducing excess inventories will hit foreign producers, not U.S. manufacturers. Indeed, the April increase in output suggests U.S. factories are coping. In addition, any upward refiguring of inventory growth will counteract the drag from the revision to net exports.

WHETHER OR NOT INVENTORIES become a problem later on will depend largely on consumers. The fundamentals in the consumer sector continue to strengthen, a trend that bodes well for household spending as well as housing. Housing starts fell 2.3% in April, to an annual rate of 1.54 million. But single-family starts edged up 0.7%, to a 1.24 million pace.

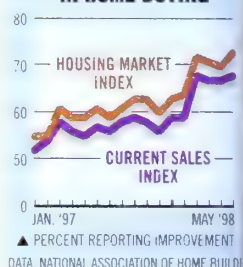
First-quarter housing was helped by a mild winter and by the most affordability in two years, according to the National Association of Realtors. Mortgage rates and income growth are still favorable, which is why the housing sector will remain firm, although it will slow. Builders remain upbeat. The National Association of Home Builders' Housing Market Index—a measure of current sales, sales expectations, and buyer traffic—rose to 68% in May, from 67% in April. The sales index climbed from 70% to 73%, a record high (chart).

Strong reports like the NAHB's make the case for renewed vigor in the economy as the year progresses. But so far, economic strength has not spurred much of an uptick in inflation. Consumer prices rose 0.2% in April, with core prices, which exclude food and energy, up 0.3%. The overall yearly inflation rate is running at 1.4%, while the core rate is 2.1%.

When signs of price pressures emerge, they will be found in services. Core service prices rose 0.4% in April, the largest monthly increase in three years, bringing the annual clip to 3%. Price hikes in shelter, education, and medical services led the increase, and those sectors are likely to lead future gains as well.

The hope is that the economy will slow down long enough to stop price pressures from building. So far this year, however, nothing in the fundamental makeup of this economy suggests that the slowdown will last past the summer. The Fed sets up a scenario of ever-tighter labor markets pushing up labor costs further. If inflation gets out of its cage, taming it may not be as hard as trying to contain a 220-foot, mutant lizard, but the Fed may have to bring out its heavy artillery to subdue the beast.

BUILDERS SEE NO LETUP IN HOME BUYING



GERMANY

GROWTH LIKE THIS WON'T LAST

The German economy began 1998 with a burst of speed. But special factors lifted output, so growth will most likely settle down in this quarter and beyond.

On May 18, the Economics Ministry said that real gross domestic product probably grew at a quarterly rate of about 1% in the first quarter, after rising just 0.3% in the fourth. The official data will be released on June 4. A mild winter boosted construction spending, as did a revival of public-works projects that had been tabled in 1997 when the government held down spending to meet the Maastricht Treaty criteria. In addition, consumers rushed to buy big-ticket items last quarter in ad-

vance of an Apr. 1 hike in the value-added tax rate, which rose from 15% to 16%. Car registrations, for example, soared 55.1% between February and March.

But Germany's better economic performance goes beyond one-time factors. The labor markets show improvement. The jobless rate fell to 11.4% in April, from a record high of 11.8% in December. And on May 19, the IFO research institute said that business sentiment remained at a very high level in April, despite worries about Asia (chart).

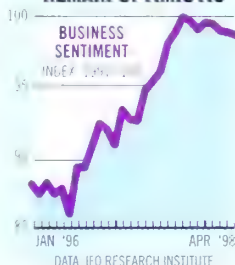
The Economics Ministry reaffirmed the government's forecast of real GDP growth between 2.5% and 3% for all of 1998. That

followed an earlier report by Germany's six largest economic-research firms that projected growth of 2.6% in 1998. Real GDP grew 2.3% in 1997.

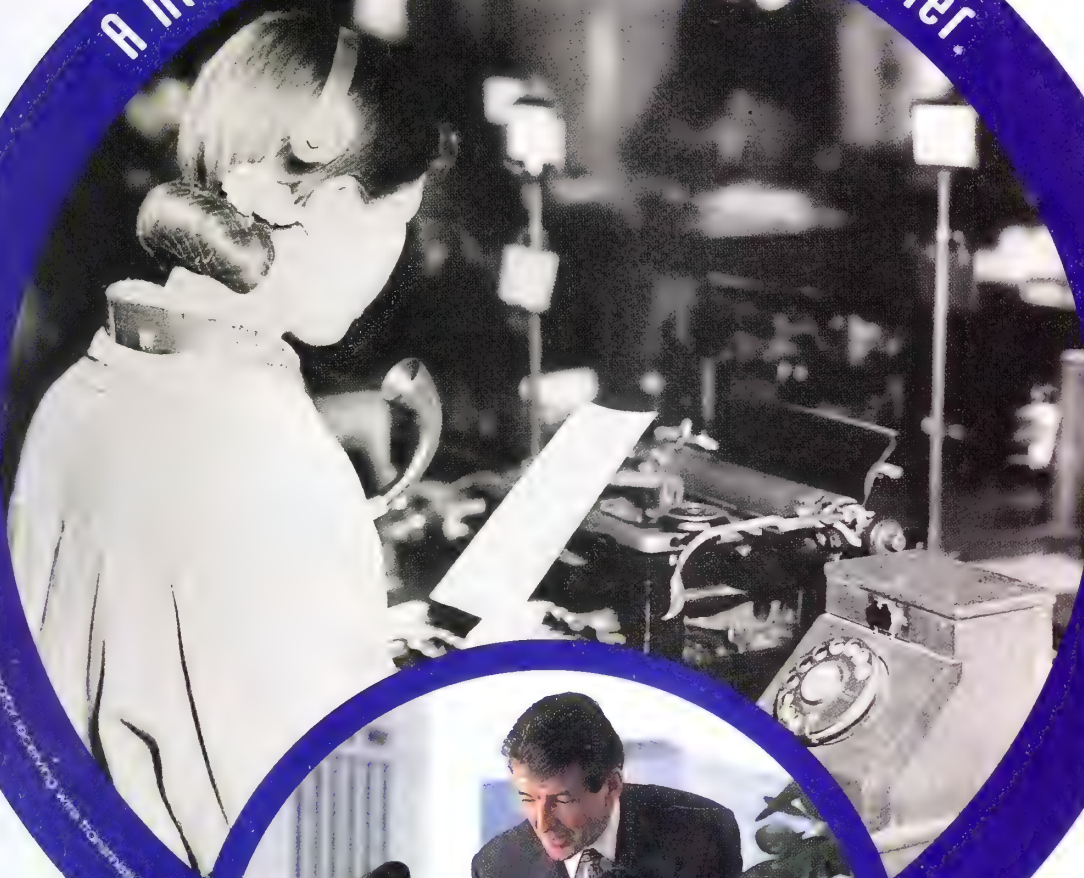
At the same time, the inflation climate is, in the Bundesbank's words, "very favorable." Consumer prices rose just 1.4% in the year ended in April, and the Buba's main gauge for inflationary pressures, the M3 money supply, is back to growing within target.

Even so, the Buba is expected to lift interest rates by Jan. 1. The hike, which will push short-term rates up by a half-point, will align German rates with those of the other single-currency members. The outlook for steady but moderate growth, coupled with no inflation signals, suggests that the central bank can wait until later this year to make the move.

GERMAN BUSINESSES REMAIN OPTIMISTIC



A history of bringing people together.



Japan's leading telecom provider — NTT — has been connecting people and businesses with cutting-edge services for over 100 years. Today, our *Global Systems Integration Services* provide failsafe solutions for end-to-end corporate connections around the planet. And our *Arcstar Global Communications Services* unite major cities across the U.S., Europe and Asia with high-speed infocommunication highways. As we continue to branch into new areas, one principle is certain to endure: we're here to bring people together, now and for generations to come.

Arcstar

Connecting the world through multimedia

For more information on how NTT can connect you, call 1-800-4-NTT-USA, or visit our website: <http://info.ntt.co.jp>



SOFTWARE

THE BATTLE FOR THE

As Microsoft and Justice spar, the industry foresees sweeping change

On May 18, while Bill Gates was briefing the world's news media in an auditorium on the company's Redmond (Wash.) campus about the historic antitrust suits that had just been launched against Microsoft Corp., engineers in another building were celebrating. They had just completed three years of work on Windows 98. And, despite the antitrust suits, they were determined to keep up tradition. They marked the occasion by tossing their boss, Bill Veghte, into a pond and running a Windows 98 banner up the corporate flagpole.

Microsoft employees—especially the chairman (page 40)—are convinced that they have violated no laws, that the Justice Dept. and the 20 states suing the software giant won't prevail, and that business will proceed pretty much as usual. But across the high-tech industry, there's a far different view. While few observers predict immediate, dramatic changes, a consensus is developing: Win,

lose, or draw, the battle between Microsoft and regulators will alter how the computer industry and the Internet develop over the coming years.

The key variable is the degree to which Microsoft continues to plot that course. At the heart of the government case is a portrait of Microsoft as a manipulator, using its clout to shape the industry and bend new technology—particularly the Internet—to its strategic advantage. Justice's most damaging bombshell in its May 18 filing was quotes from Microsoft employees who laid out plans to bundle new features such as the Web browser into Windows specifically, it seems, to thwart threatened competition—in the words of one Microsoft exec, to “cut off Netscape's air supply.”

JUST THE START. If that evidence persuades U.S. District Judge Thomas P. Jackson to grant a preliminary injunction, Microsoft will be forced to change Win98—by adding Netscape Navigator or offering versions with and without Internet Explorer. And, if that injunction were to hold up on appeal, Microsoft's ambitions to extend the Windows “platform” into a range of new markets—from consumer appliances such as interactive television to computer servers for electronic commerce—could be constrained.

Even if the government doesn't win

the injunction, which it wants before Win98 hits stores on June 25, the legal challenges to Microsoft's business practices won't end. “This is just the first step of a bigger battle that will shape the industry,” says Peter Schwartz, chairman of Global Business Network, a think tank in Emeryville, Calif.

AS THE SUIT PROCEEDS, THE WORLD CHANGES...

FOR MICROSOFT

- Depending on the outcome of the preliminary injunction, the company may have to curtail exclusionary deal-making and limit future product tie-ins
- The company may become more cautious in its behavior, from its acquisitions of startups to entering new markets
- No matter what, the company will be forced to expend energy and resources fighting the government



YBER FUTURE

Indeed, the Feds and the states made clear that their investigations are continuing. "We're concerned about the principle of using the operating system as a wedge to sell other products," says a State Attorney General Tom Miller. "The browser is only the most current example." Sources close to Justice and

the state's attorneys general say that the trustbusters hope the suit will establish general principles on practices like exclusionary contracts and product bundling that can then be applied to markets beyond browsers. That could affect Microsoft's ability to integrate new features such as speech recognition into its operating systems—forcing changes in the software giant's strategy.

That's why even though it's probably too late for Justice's proposed remedies to erode significantly Microsoft's position in operating systems or browsers, Gates isn't apt to give an inch. He's thinking about the future. "It's quite a crucial and interesting juncture," says Rudolph J. Peritz, antitrust professor at New York Law School. "The notion of the desktop computer has been expanded to the virtual space of the Internet."

Industry executives and observers paint two starkly different scenarios depending on the suits' outcome. If the government prevails, Microsoft will still dominate PC operating systems, but there will be more room for innovation, they say. The downside, however, would be more government intervention. If Justice loses, critics say Microsoft would emerge emboldened and could run roughshod over new markets while impotent federal regulators look on. Eventually, doomsters predict, it would control corporate computing, the Internet, and the new world of digital appliances every bit as tightly as it now rules the desktop.

But the simple fact that government

has taken on Microsoft has given some investors and executives in the technology business cause for hope. They see an opening as the feds and the states prepare for years of jousting with Gates. With the giant in court—and presumably on its best behavior—rivals that feared to tread anywhere near Microsoft's elephantine path may now take the chance. "It would encourage more companies to write software, compete with Microsoft, and feel that they won't be knocked out by predatory conduct," says Carl Shapiro, an economist at the University of California at Berkeley.

RAPID PACE. The Justice suit could make a big difference for entrepreneurs, agrees Yogen K. Dalal, a partner with Mayfield Fund, a Silicon Valley venture capitalist firm. "Those companies will feel they can make it on their own. It's going to embolden the entrepreneur and the investor."

The government scrutiny could also cause Microsoft to slow its rapid pace of acquisitions—the software maker acquired some 40 companies in the last two years. That may cause some short-term problems for startups that hoped to be acquired by Microsoft—a common goal in the Valley these days. But it could also stimulate more disruptive forms of innovation—beyond the imaginings of Microsoft, the current standard setter.

This scenario is likely on the Internet. That's where, Justice alleges, Microsoft has used illegal means to fend off Netscape's browser, which Microsoft execs worried would marginalize Windows. Now, as the Internet is beginning to unlock a new world of electronic commerce,



FOR THE REST OF THE INDUSTRY:

- Startups and investors may be emboldened to launch new ventures if they see a more circumspect Microsoft
- PC makers may gain substantial bargaining power in their dealings with Microsoft and software makers
- Netscape may get a free ride that could strengthen the company. But it's unlikely to see a complete reversal of fortune

"The next software boom is the Internet, and Microsoft

Microsoft wants to ensure it can play a big role in that, too. "The next software boom is the Internet, and Microsoft is moving to capture everything in it," says Trevor D. Traina, president of CompareNet, a Net startup. "They've moved very aggressively to own all of it."

Indeed, the remedies Justice is seeking in its preliminary injunction—to restrict the bundling of Internet Explorer with Windows, ban exclusionary contracts, and shift more control over the Windows opening screen to PC makers—

may do more to provide an even playing field a few years hence than to change anything now. PC makers, for example, aren't screaming for control of the opening screen.

But the opening screen—the portal to the Internet—will become critical when high-speed communications transform the Web into a more mainstream medium that hordes of newbies will tune into from TVs and smart phones as well as PCs. "The real question is what will happen to TV by then?" asks George

Bell, chief executive of Excite Inc. "Who gets to program the set-top box? Microsoft wants to be in that space." Indeed, Microsoft is already muscling in. Last year, it bought WebTV and made big investments in cable operators. It's pushing Windows CE as the operating system for digital set-top boxes and other consumer devices.

The prospect of Microsoft controlling the future as well as the present is what riles Microsoft's enemies most. "Anyone who cares about the Internet and t

CHAIRMAN BILL BARKS BACK

Why risk years of litigation and the possibility of losing an antitrust battle with the federal government and 20 states? On May 19—a day after the Justice Dept. and the states filed their suits against Microsoft Corp.—an uncompromising Chairman William H. Gates III told *BUSINESS WEEK*'s Steve Hamm why he called off the settlement talks—and discussed how his decision will affect his company and the industry.

Q: What happens to Microsoft and the computer industry if Justice gets an injunction and wins the suit?

A: We're very confident that the government won't be successful. The law on our ability to innovate on behalf of consumers is crystal-clear. Likewise, all

share. So, this is a lawsuit where the government had its best day when it filed the suit. Now, we get to bring out the real facts about what has taken place here.

Q: So there's no chance at all for settlement?

A: I put in day and night for a couple of weeks—doing our best to settle this thing. It's kind of interesting that what the government was asking for in the settlement was not less than what they're asking for in the lawsuit. The notion that we have to completely hide the Windows interface and make the Windows name meaningless and that we have to hide the Internet support that we built in for users and developers or that we have to ship a competi-

almost immediately come to an impasse?

A: [Microsoft Senior Vice-President William H.] Neukom spent all day Friday and a part of Saturday talking face-to-face with the Justice Dept. and the states, and that was the first time that we understood that they were compromising in any way, shape, or form. I was glad to delay Windows over the weekend. I was glad to delay heaven and earth to make sure we'd done everything possible to try to settle this.

Q: The papers Justice filed have looks like evidence of attempted collusion at a June, 1995, meeting between Microsoft and Netscape. What really went on?

A: It's an outrageous lie, the way Netscape has characterized the meeting. I was not involved in the meeting in any way, shape, or form. Then a couple of people from Microsoft had been requested to go down to Netscape. None of our people were doing the browser development there...but we were very far along in developing our browser. And we had just shipped our browser a few months after this meeting, and we had been working on it for more than a year. To say that it was something about collusion is just absolutely wrong. At no time in any way was there a discussion about dividing up a market.

Q: What things will you be prevented from doing if Justice wins?

MICROSOFT'S TURN

“The government had its best day when it filed the suit. Now, we get to bring out the real facts about what has taken place here”

the contracts we did are perfectly normal, legal contracts that have in no way made it impossible for Netscape [Communications Corp.] to market their products. Internet Explorer (IE) has been successful because it's the best product that's available. IE was in Windows from the very, very beginning, and that didn't get us much usage. It's when we listened to the customers and did great work that we gained market

share. So, this is a lawsuit where the government had its best day when it filed the suit. Now, we get to bring out the real facts about what has taken place here.

Q: The Feds weren't willing to compromise on those issues?

A: That's right. All three of those demands they were immovable on.

Q: Why, then, did Microsoft restart the talks on Thursday, May 14, but then

ng to capture everything in it," says a Net entrepreneur

al marketplace has got to care that e be competitive, alternative routes et there," says Roberta R. Katz, gen-counsel for Netscape.

ome Net entrepreneurs say they al-y find themselves stymied by Micro-s power in cyberspace. Ask Payam mani, co-founder and executive vice-sident of Autoweb.com, a Santa ra auto sales site that competes with rosoft's Carpoint. Zamani contends, CarPoint has an unfair advantage e Microsoft can funnel traffic to the

site from its browser. "They don't even have to do any brand marketing," says Zamani. "If Microsoft wins this battle, it means the Information Age will be Bill Gates's."

How will the legal battle play out? The first test will be the injunction. "It will be a decisive battle," says George Mason University School of Law Professor William E. Kovacic. "If Justice wins, it will give tremendous leverage to their case. If the DOJ loses, they will be forced to march through the litigation

swamp that tends to eat government lawyers alive."

And if Microsoft heads off the injunction? "We're back to the status quo, except that Microsoft would be much smarter about everything," says Rob Enderle, an analyst with Giga Information Group Inc., who's critical of the Justice suit. "If they're scary now, they'd be truly frightening." The battle begins.

By Amy Cortese in New York, with Susan B. Garland in Washington, Steve Hamm in San Mateo, and bureau reports



principles Justice has put for-
ver would have allowed us to
ows 95. We never could have
aphical user interface into the
g system. We never could have
management in. We never
ve put networking support in.
r could have done Windows
e future, we wouldn't be able
eech recognition or visual
ion.

search and development. The key for
us is just to keep doing that great
work and make sure that there's no
distraction here.

Q: Do you expect to have predominant
market share in all those operating sys-
tems—Windows 98, Windows CE, and
Windows NT?

A: If you call my competitors, they're
on the verge of wiping out Windows

SUCKER-PUNCHED BY JUSTICE

“They weren’t compromising
in any way, shape, or form....
We had done everything
possible to try to settle this”

Q: If you are correct
and if the Justice
Dept. suit fails, how
do you see the indus-
try evolving? And how
about Microsoft?

A: Microsoft has
three primary busi-
nesses, and they’ll be
our primary business-
es for the next
decade. Those are
Windows, Office, and
BackOffice. We see
huge opportunities in
each of those areas.
We’re going to stay
true to the vision and
principles that we’ve
had ever since our
founding: hiring smart
people, listening to
our customers, in-
vesting a lot in re-

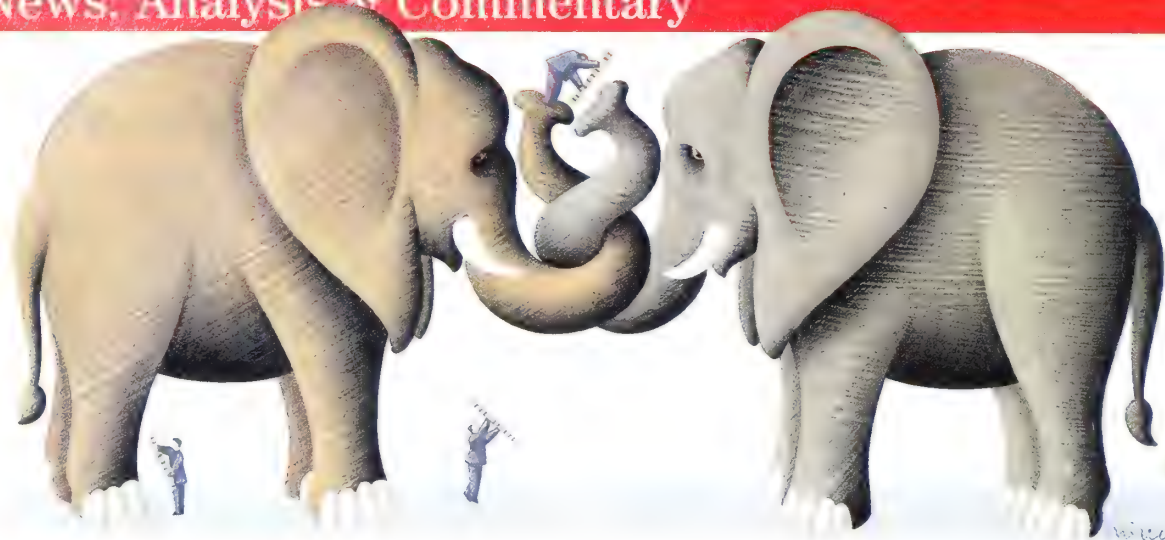
and all the other products. I just came
out of a session where we were talking
about all sorts of customer feedback
about what things we need to be doing
better. All we can do is come in and do
our best at enhancing these products.
Windows NT 5, for example, is a very
exciting product. But there are lots of
companies that are competing to re-
place us.

Q: Personal-computer makers’ prices
have fallen by half in the past few
years, but your price for Windows is
the same. You’re not sharing the pain
with them...

A: Look at the R&D investment that
we make in Windows and how those
costs have been going up. They are
dramatically higher than they were in
the past. Windows 98 is a product that
we priced exactly the same as Win-
dows 95, and yet it has substantially
more capability. Windows has always
been a pretty small percentage of the
cost of a PC, and the key thing that PC
manufacturers ask us for, Steve, is con-
sistent pricing—which we absolutely
give them.

BusinessWeek ONLINE

For a full transcript of this interview and
daily business news, visit
businessweek.com or AOL: Keyword: BW



REGULATORS

TRUSTBUSTERS: WHY THEY DO WHAT THEY DO

A post-Chicago pragmatism guides their merger scrutiny

Mergers, megamergers, gigamergers. By late May, \$679 billion worth of mergers and acquisitions had been announced in the U.S., according to Securities Data Co.—more than in all of 1996 and closing in on the 1997 total of \$917 billion.

It's hard not to be alarmed when giant competitors—or potential competitors—decide to make love, not war. Travelers Group Inc. and Citicorp dream up the world's biggest financial institution, with \$700 billion in assets. NationsBank Corp. and BankAmerica Corp. plan the nation's biggest bank. Chrysler Corp. teams with Daimler Benz. SBC Communications Inc. and Ameritech Corp. aim to pare the number of Baby Bells, once seven, to four.

Sure enough, trustbusters are stepping up the pace as well. While allowing

most of the megadeals, they have blocked a few, such as the proposed combination of Office Depot Inc. and Staples Inc., and are suing to stop others, like the combo of Lockheed Corp. and Northrop Grumman Corp.

At first glance, the actions may appear random. In fact, they come from a coherent set of economic principles that raise green flags for some deals and red flags for others. The guiding question: Will consumers win or lose?

It's a big change from the 1980s, when the Reagan Administration embraced the anything-goes antitrust doctrine of the so-called Chicago School. Economists from the University of Chicago argued that the workings of the free market would break down almost any barrier to competition, even monopoly.

Today, the governing philosophy under Justice Dept. antitrust chief Joel Klein and Federal Trade Commission Chairman Robert Pitofsky is looser, called "post-Chicago." Their faith in free markets is tempered by a recognition that governments must occasionally step in when competition fails—say, if barriers to entry are too high. "The Chicago School got a great deal of mileage out of very, very simple concepts. But you can't overdo it," says Gary L. Roberts, now vice-president at consultants Chartered River Associates Inc. and from 1993 until last September, director for antitrust economics at the FTC. Adds Klein: "The notion that markets will always self-correct is wrong."

CRUNCH TIME. One hallmark of the post-Chicago school is its reliance on data rather than theory alone to judge how mergers might affect consumers. In the FTC's successful 1997 effort to block the Staples-Office Depot merger, the companies argued they couldn't jack up prices because even together they would have only a small share of the office-supply market. But the agency crunched masses of checkout-scanner data that showed that Staples clearly charged more in markets where it didn't face

TOUGH ISSUES FOR TRUST-BUSTERS

AIRLINE ALLIANCES Does the potential for reduced competition outweigh the convenience for customers of easier ticketing and baggage forwarding through measures like code-sharing?

LOCKHEED MARTIN-NORTHROP GRUMMAN

Would the merger boost prices for electronic weapons systems in an industry that has already seen major consolidation?

NATIONSBANK-BANKAMERICA

Will the combined companies be so dominant that customers will find themselves severely limited in their banking options?

PRIMESTAR AND A NEWS CORP.-MCI SATELLITE

Regulators had hoped the satellite system would be a prime competitor to cable, not the cable industry's pet satellite.

SBC-AMERITECH Would a merger head off competition in each company's home markets? If so, are there enough remaining challengers to curb price hikes?

WORLDCOM-MCI European and American regulators may force the divestiture of MCI's Internet "backbone," while U.S. antitrust officials will probe the effect on domestic long-distance.

Documents are digital. Documents are paper.

Xerox introduces paper, circa 1998.



 This is not about a new kind of paper. It is about getting more control over all the documents you work with in today's digital office. Documents are always moving from your screen to paper and back again. But getting the documents on your screen to the right place in the right form can leave anyone frustrated. You need a simpler way to work with "paper," whatever form it takes.

That's why our wide range of digital products, document services and software solutions helps you access, produce, distribute and publish documents in whatever form you need.

To learn more, go to www.xerox.com/new, or call us at 1-800-ASK-XEROX, ext. 313. And see how much simpler work can get in the digital world, circa 1998.



THE DOCUMENT COMPANY

XEROX

other superstores. The FTC concluded that consumers viewed superstores as a separate niche—and anyone dominating it would gain pricing leverage.

By letting the data speak, post-Chicago trustbusters can cut short endless debate on how to define markets. "Market definition is really the black hole of antitrust. Both Pitofsky and Klein have encouraged a sort of stepping around that black hole, not getting sucked into it," says New York Law School Professor Rudolph J. Peritz.

Post-Chicago economists agree with their forerunners that big is not necessarily bad. What really matters is whether an industry's structure lets companies harm consumers by raising prices, cutting output, or stifling innovation. Trustbusters are likely to approve the \$42 billion merger of Daimler Benz and Chrysler because the two face a host of tough competitors. For similar reasons, the \$60 billion merger of NationsBank and Bank of America and the \$70 billion combination of Citicorp and Travelers Group are likely to pass muster.

SINGLE SUPPLIER. But lots of deals do trigger alarms. In March, Justice sued to block Lockheed Martin's \$11.3 billion purchase of Northrop Grumman. One reason: Lockheed could favor Northrop, its captive parts supplier, to the detriment of its biggest customer, the Pentagon. On May 12, Justice sued to stop the cable-TV industry's satellite-TV consortium, Primestar Inc., from buying a key orbital slot for a TV satellite that could be used for a rival service. And in a May 19 Capitol Hill hearing, Klein questioned cozy deals among U.S. airlines, such as cross-booking between dominant carriers.

In WorldCom Inc.'s purchase of MCI Communications Corp., European and American officials are nudging the companies to sell MCI's Internet "backbone" to reduce the combined company's Net dominance (page 152). The other pending telecom megamerger, between SBC and Ameritech, is a puzzle because it might curb future competition, even though the companies are not yet operating in each other's markets. "I don't think there's ever been a merger stopped on 'potential competition' grounds. This could be the case where you finally have it," says Robert E. Litan, a Brookings Institution scholar and former Justice official.

For better or worse, merger mania is here to stay. The post-Chicago trustbusters at Justice and the FTC are determined that consumers won't end up as its victims.

By Peter Coy in New York

COMMODITIES

FROM OIL TO GOLD, IT'S DOWN

A volatile and still-shrinking Asian market is responsible



COMEX COLLAPSE: Prices are approaching 10-year lows

The commodity markets are swooning again, and the culprit is Asia. Following riots in Indonesia and nuclear tests in India, prices of oil, metals, and even grains have been whacked. In the last month the Goldman Sachs Commodity Index has dropped 10% and now stands 25% below where it was a year ago. Spot prices for commodities in the index are now flirting with 10-year lows. "I'm not particularly enthusiastic about any commodity now," says William E. Byers, director of futures research at Bear Stearns.

"If this is a new weakness in commodities, it tells us Asia is still contracting," says James Glassman, senior U.S. economist at Chase Securities. Adds Robert G. Dederick, an economic consultant with Northern Trust Co.: "Asia is now in recession, and that kicks one leg out from under the stool" supporting commodity prices (page 52).

And a very important leg. Asia has been the largest source of demand for growth in energy and industrial commodities for several years. Not surprisingly, prices of oil and industrial metals such as copper and

aluminum have taken the worst hit lately. Even with the U.S. economy thriving and Europe heating up, Wall Street economists peg worldwide economic growth below 3%, which means commodity prices will stay low for a while.

Take West Texas crude. After rising in April and May, its price fell to \$14 on May 20, and economists say it could soon test its March lows of under \$13

barrel. The problem is oversupply, partly due to the woes of big oil importers such as Japan and Korea. Alan Struth, chief economist at Phillips Petroleum Co., says there is currently an excess of about 1 million barrels a day on the market.

The situation is worse in industrial metals. With infrastructure projects across Southeast Asia being scrapped, imports of copper

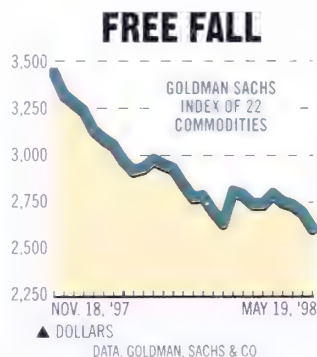
and aluminum have plummeted. The July copper futures contract on the Comex has dropped 15% since the end of April. And with low-cost South American producers still making money at current prices, analysts don't expect supply to tighten much.

COUNTERBALANCE. Precious metals have also been hit. Inflation fears drove the price of gold up to \$314 per ounce earlier this year, but it's now below \$310. And with India, the largest consumer of silver, threatened by economic sanctions in reaction to its nuclear tests, demand for that precious metal also may be depressed for a while.

Agricultural commodities have not been hit as hard by Asia's problems. And there are rare exceptions to the dismal trend: cocoa and tin, for example.

But commodities prices are unlikely to rebound until conditions change. That may mean losses for some investors. On the other hand, commodity deflation is an effective counterbalance to rising labor costs. And that's good news for inflation fighters.

By Andrew Ostroff in Chicago and Gary McWilliams in Houston



Her firm is helping design
the cities of tomorrow.

We're helping her plan
her financial future today.



Designing tomorrow's world takes vision, careful planning, and the right execution. Designing a financial future requires no less. That's why the products and services of American General make so much sense. As one of the nation's largest providers of retirement services, life insurance, and consumer loans, we're uniquely qualified to help build our customers' financial success. We offer personalized

service and knowledgeable financial counseling to 12 million people at every stage of their lives. American General. Helping our customers design - and achieve - a successful financial future.

**AMERICAN
GENERAL**

Retirement Services • Life Insurance • Consumer Finance

Helping 12 million Americans do better financially.

American General Life • American General Life and Accident • Franklin Life • United States Life
All American Life • Old Line Life • USLIFE Credit Life • American General Life of New York
American General Finance • VALIC • American General Annuity • American General Securities Incorporated

Visit www.agc.com or call 1 (800) AGC - 1111

COMMENTARY

By James C. Cooper

WHEN GREENSPAN SHOULD'VE HIKED

It's hard to fault the leadership of Federal Reserve Board Chairman Alan Greenspan, especially now with the economy in its best shape in a generation. His carefully objective policy decisions, his cordial relationship with the White House, and the respect he has earned on Wall Street are a model for all future Fed chiefs.

However, as the stock market continues to reach new highs, chances are rising that the Greenspan Fed has made a policy mistake—not so much by failing to raise rates on May 19 but by not raising them earlier a tad more. That error could now hit an inflated stock market and the economy hard.

Except for the lone quarter-point hike in March, 1997, the Fed has sat on the sidelines for two years, despite Greenspan's famous question about the "irrational exuberance" of the market. Its inaction has helped to fuel the false belief among investors that rapid economic growth with low, or even falling, inflation is a new and lasting feature of the economy. That combination all but assures high profits and low interest rates—the lifeblood of rising stock values. As a result, the Dow Jones industrial average has risen from 5400 to 9100 during that time.

CAUTION FLAGS. Now, the Fed is in a bind. It passed on a rate hike on May 19, probably with an eye to Asian turmoil and current low inflation in the U.S. Even so, inflation warnings from a very tight labor market are lifting the odds that the Fed will have to tighten policy this summer to keep inflation in check. That would come at a bad time, not only for the U.S. stock market, but also for Asian markets.

By waiting, the Fed probably has forgone the opportunity to let air out of the stock market's bubble without popping it and hurting the economy. Depending on how much the market is overvalued—and there is no consensus on that—the same wealth effect that has boosted consumer spending and housing and the same cheap equity financing that has helped to

buoy capital spending could work virulently in the opposite direction.

The Fed had at least two chances to nudge up rates without rattling the markets. In the summers of 1996 and 1997, there were several caution flags on inflation to justify small rate hikes. In-

IN A BIND

A little tightening over the past two years wouldn't have hurt. Now it could pop the market's bubble

stead, the Fed's inertia gave stock investors the green light to indulge their expectations of economic nirvana, especially since Greenspan himself has taken to ruminating publicly that structural changes may be rewriting past inflation rules. However, inflation's quiescence more likely reflects a bevy of favorable—and temporary—factors, ranging from a stronger dollar and declining health-care costs to a merely cyclical pickup in productivity, not the structural upshift that some believe.

Moreover, the recent speedup in the broad M2 money supply, to the fastest pace in 11 years, suggests that Fed policy has been too accommodative. The stock market's runup may not reflect bright prospects for productivity and profits, but only excess money and credit finding a home in stocks.

Three quarter-point rate hikes stretched over the past year and a half would hardly have damaged this sturdy economy. Instead, the increases would have been cheap inflation insurance, since they would have forestalled labor market pressures, even while allowing the jobless rate to decline, although more slowly than it has. Critically, earlier tightening would have slowed the expansion of the stock market's bubble.

This market is now priced for perfection, which excludes any bad news

on either interest rates or profits. Equity prices for the Standard & Poor's index of 500 stocks have soared to 26 times the past year's earnings, far above the peak prior to the 1987 market plunge. Based on



expected earnings for the coming year, the p-e ratio is a still-high 22, which implies that companies are expected to deliver a 7% increase in operating earnings. That's a real

stretch, given that rising labor costs and Asia-led weakness have already slowed earnings growth. Last quarter, profit growth was zero, and the Dow rose 1,200 points.

Promoting stable financial markets is a key function of the Fed, but that must apply to the market's upside as well as its downside. By not acting earlier, Greenspan has taken a big gamble with the economy. Let's hope he's right.

Cooper is BUSINESS WEEK's senior economist.

CERTIFIED PRE-OWNED LEXUS



NOW LEXUS IS MILES AND MILES
AHEAD OF THE COMPETITION.
THE 3-YEAR/100,000-MILE WARRANTY.*



What better way to distance ourselves from the rest of the field? Introducing the groundbreaking Lexus of Warranties: 3 years and 100,000 total vehicle miles on every Certified Pre-Owned Lexus. It's like no other pre-owned automobile warranty around. And every Certified Pre-Owned Lexus comes with 24-hour Roadside Assistance, passes a rigorous 128-point inspection and is available with incredibly affordable financing. So while it's true that we're miles ahead of the competition, for you, owning a Lexus is closer than you think. Test-drive a Certified Pre-Owned Lexus today. Only at your Lexus dealer.



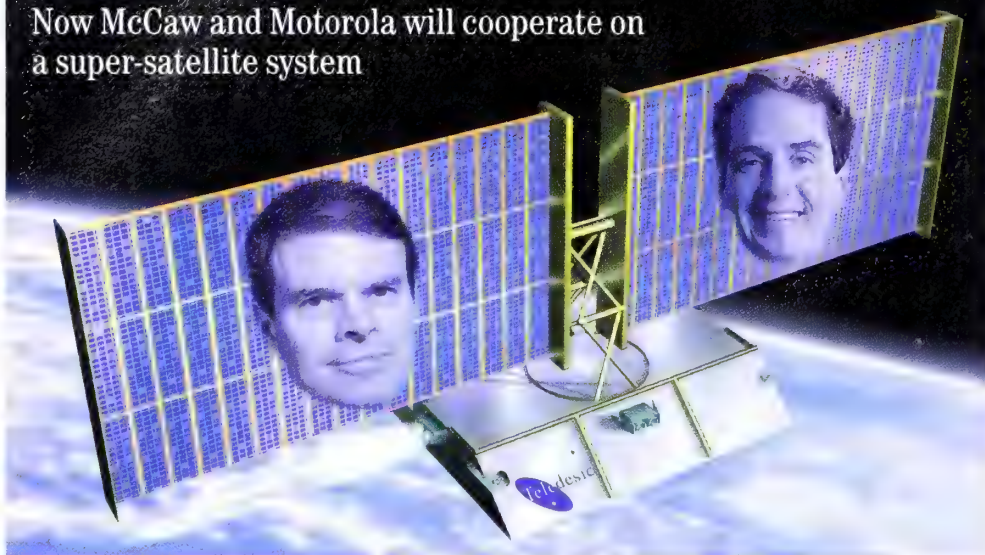
www.lexuscpo.com

© 1998 Lexus, a Division of Toyota Motor Sales, U.S.A., Inc. Lexus reminds you to wear seatbelts, secure children in rear seat and obey all speed laws. *Minimum 10,000 mile warranty coverage for Lexus CPO vehicles. See your CPO Lexus dealer for details on the limited warranty, available finance rates, and Roadside Assistance.

COMMUNICATIONS

THE INTERNET SPACE RACE

Now McCaw and Motorola will cooperate on a super-satellite system



When is it time for companies to put aside a feud? When they can team up and take the lead in a hot new market. That's what's happening with Motorola Inc. and satellite startup Teledesic. Wireless entrepreneur Craig O. McCaw, chairman of Teledesic, split with Motorola CEO Christopher B. Galvin last summer, a few months after McCaw handed the contract to build the \$9 billion Teledesic system to Boeing Co. instead of Motorola. Galvin then announced plans to build its own satellite system, Celestri. "This is about Motorola trying to wreck Teledesic because they hate the idea of Boeing competing as a satellite provider," Teledesic President Russell Daggett told one newspaper interviewer.

Now, McCaw and Galvin are making up. The two have agreed to combine their ventures into what promises to be a superpower in the space race to deliver high-speed Internet access by satellite, according to two people involved in the talks. Under the terms agreed upon, Motorola will drop its Celestri effort, take a 26% equity stake in Teledesic, and receive a multibillion-dollar contract to build satellites for McCaw. The surviving entity will be Teledesic, which also has the backing of

Microsoft Corp. Chairman William H. Gates III. McCaw will continue to run the venture as chairman and co-CEO.

McCaw is turning to Motorola for several reasons: For one, Boeing has told McCaw it will not be able to complete Teledesic for the original \$9 billion estimate. For another, Motorola has demonstrated its satellite expertise by completing its 66-bird Iridium system, which will offer voice and paging service. Besides, neither McCaw nor Galvin wanted to end up on opposite sides—particularly since Motorola had been McCaw's wireless-phone supplier for years.

Motorola will take over the role of

prime contractor from Boeing, although the aircraft company will retain a Teledesic equity stake and will help with the construction and launch of Teledesic's satellites.

The McCaw-Motorola effort won't lack for rivals. The reason? The economics of providing high-speed Internet connections from the sky look fantastic. The companies figure they can deliver—for \$100 or even \$50 a month—the 1.2 megabit-per-second hookups that business users lease from the phone companies for about \$1,200. With the booming demand for data, the market for high-speed transmission from satellites could grow to \$21 billion by 2005, according to Merrill Lynch & Co. "Our cost is extremely modest compared with anything that's out there now," says Ronald Maehl, president of Cyberstar, the Loral Space-backed satellite venture.

Still, the new Teledesic promises to be a formidable competitor. "The two of them together certainly makes the venture more credible," says Maehl. In addition to the savvy and deep pockets of Gates and McCaw, it has strong international backing. In April, billionaire Prince Alwaleed of Saudi Arabia invested \$200 million for a 13.7% stake—and agreed to help market the service.

SPEEDY. Motorola's satellite-building skills will also be critical. The company has trimmed satellite manufacturing time down to little more than four days compared with an industry average of two years for larger birds. "Really, the best people to build [Teledesic] would be

Motorola, because they have this assembly-line technique," says Marco Caceres, senior space analyst at market researcher Teal Group.

If it can speed up its manufacturing, Teledesic may be able to begin operating even before its scheduled launch in 2000. That could be critical, since the Internet market is changing fast. "It's extremely difficult even to predict what Net demand is going to be like at the time," says Maehl. "The key is to hit these markets early." Together, McCaw and Galvin have a good chance to be winners in the Star Wars to come.

By Peter Elstrom in New York

SKY WARS

Vying to provide high-speed Internet access:

ASTROLINK The Lockheed Martin-backed system, budgeted for \$2 billion, will have nine satellites

CELESTRI* Motorola's planned 72-satellite system, budgeted at \$14.7 billion

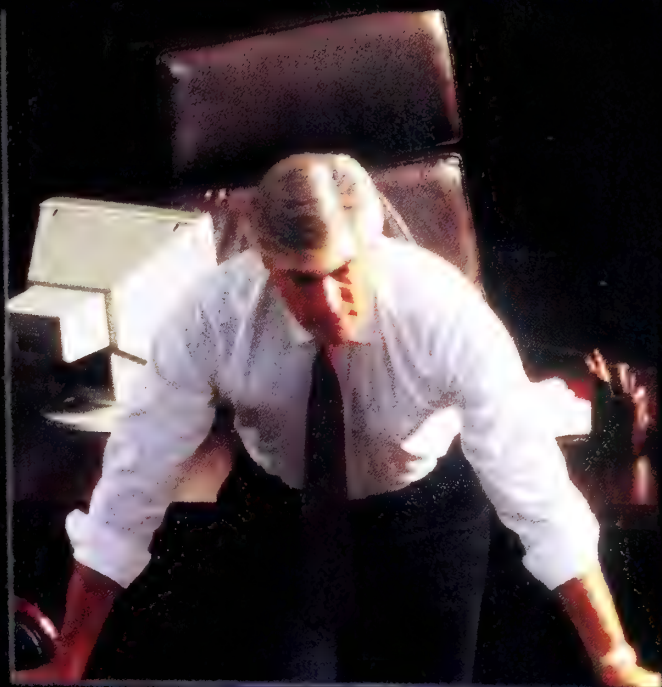
CYBERSTAR/SKYBRIDGE A joint venture of Loral Space's Cyberstar and Alcatel's Skybridge

SPACEWAY Hughes Electronics is backing this venture: 28 birds at a cost of about \$4 billion

TELEDASIC* A \$9 billion, 288-bird system backed by Craig McCaw and Bill Gates

*Motorola is dropping Celestri to participate in Teledesic.

DATA: BUSINESS WEEK



Telecommunications markets are being deregulated around the world.
Your competition is already positioned to reap the profits.

There's a company that can help you get there first.

SPEEDING SUCCESS Opportunities in newly deregulated markets are huge. But so are the headaches. When timing is critical, you need a company with experience. Nortel has helped create the three largest competitive networks in North America, the second and third national networks in the United Kingdom, and competitive networks in Mexico, Japan and Brazil, to name a few. We understand that speed-to-market, rapid service deployment and satisfied customers are the way to get to the profits—first. So why wait? For more details, visit www.nortel.com/success2. Or call us at 1-800-4NORTEL. We'll help speed your success.

NORTEL
NORTHERN TELECOM

In Business This Week

EDITED BY PAT WECHSLER

INTEL PLAYS IT SAFE WITH ITS CHIPS

AN OUNCE OF PREVENTION? Intel has decided to license the proprietary connector between its Pentium II microprocessor and other personal-computer parts. An ongoing Federal Trade Commission probe of Intel has focused on the Pentium II connection—which competitor chipmakers need in order to sell Pentium II compatible chips to PC makers. By cross-licensing the Pentium II interface, Intel would let an unnamed partner build such chips. Intel denies that this deal has any connection with the federal investigation into the company. The FTC could decide as early as June whether it has enough evi-

dence to bring a case against Intel.

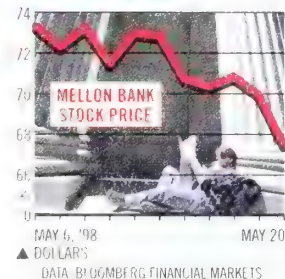
SPLITSVILLE FOR TWO GIANTS

DUPONT AND MERCK HAVE decided to go their separate ways. On May 19, DuPont announced it would put up some \$2.6 billion to buy out Merck's 50% interest in the companies' pharmaceutical joint venture. Merck Chief Financial Officer Judy Lewent says the sale is happening because Merck did not expect the venture to contribute significantly to growth. For DuPont, the move is just the latest in an effort to build up its pharmaceutical and agriculture biotechnology businesses. "This is the first in what are likely to be a series of acquisitions in life sciences," says Standard & Poor's analyst Thomas Kelly.

CLOSING BELL

MELLONGHOLY

Mellon Bank may have traded one headache for another. On May 20, Bank of New York withdrew its bid for Mellon after Mellon's board nixed BONY Chairman Thomas Renny's request to meet to discuss the deal. Now, Mellon Chairman Frank Cahouet must appease shareholders as Mellon's stock flags. Since May 6, when it hit 73%, it's down 7%, to 67%. "This puts pressure on Mellon to deliver," says James Schmidt, portfolio manager at John Hancock Funds, a Mellon institutional investor.



PEARSON'S PURCHASE ACROSS THE POND

MARJORIE SCARDINO, CEO OF British media giant Pearson, made her boldest move yet, buying Simon & Schuster's education divisions for \$4.6 billion on May 18. Since taking over in 1997, Scardino has been cleaning up the portfolio and beefing up Pearson's brand names, including Penguin Books USA and the *Financial Times*. The Simon & Schuster deal makes Pearson a global leader in educational publishing. Scardino plans to sell off about \$1 billion in S&S assets to LBO firm Hicks Muse Tate & Furst.

NO WONDER AOL IS GRINNING

ON MAY 19, AMERICA ONLINE smiled for Wall Street. The announcement of You've Got Pictures, a venture with

HEADLINER: JANE HENNEY

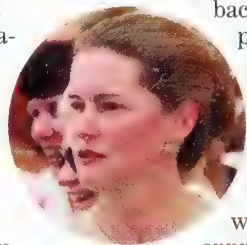
NEW TRIALS AT THE FDA

A bruising Senate confirmation lies ahead for Jane Henney, President Clinton's expected choice to head the Food & Drug Administration. Senate Republicans promise to grill the ex-deputy to former FDA Commissioner David Kessler about topics from tobacco to abortion to regulatory reform.

Henney, 51, now the University of New Mexico's vice-president for health sciences, has bipartisan credentials: As FDA deputy director for operations from 1992 to '94, she served under both Bush and Clinton. Still, her ties

to Kessler will be a liability. Many Senate Republicans viewed Kessler as a liberal activist quick to back regulation, particularly of tobacco—but slow to O.K. treatments and medical devices. Another snag: The FDA soon will be asked to approve an abortion pill. The Religious Right will try to block Henney's confirmation if she doesn't disavow the pill. Henney wins praise from consumer advocates and Senate liberals, such as Edward M. Kennedy (D-Mass.). But that's likely not enough to get her the job.

By Richard S. Dunham



Eastman Kodak, sent AOL's stock up 5.5%, to 87%. Starting this fall, AOL subscribers will be able to send film to retail processing centers that will upload images to AOL via a Kodak system. Members, who won't need special cameras or film, can link friends and family to photo sites or send photos via E-mail. AOL and Kodak will split revenues from fees charged to high-volume users and other sources.

ANDREW, WHAT BIG EYES YOU HAVE

DON'T BE SHOCKED THE NEXT time you head to the ATM and a huge Andrew Jackson looks back at you from your \$20 bill. Just like Grant on



the \$50 and Franklin on the \$100, Jackson is getting face-lift as part of the Treasury Dept.'s plan to foil counterfeiters. The new \$20 bill unveiled May 20 by Treasury Secretary Robert Rubin and Federal Reserve Chairman Alan Greenspan, features a off-center, blown-up portrait of Jackson. The bills will start circulating this month but it's expected to take several years before the last of the old twenties is out of circulation.

ET CETERA...

- AT&T is seeking deals with the Bells and GTE to mark its long-distance services.
- Bear Stearns and AM Amro are in merger talks, say reports out of London.
- Dutch retailer Royal Ahold is buying Giant Food for \$2 billion in cash.
- Ford said it expects earnings to set a record in the second quarter.

EDITED BY OWEN ULLMANN

CHINA CONNECTION WHAT COULD TRIP CLINTON UP

ately, Republicans on the Bill Clinton scandal patrol have focused on the President's character—to little avail. But now, the GOP is running with new charges of illegal Chinese campaign donations that are potentially the most explosive allegations yet against Clinton.

Six weeks before his summit in China, Clinton has been hit with a bombshell. Campaign contributor Johnny Chung has confessed that he gave \$100,000 in Chinese military money to Clinton's reelection effort. He claims the funds came from an army officer who is an executive with China Aerospace Corp. and the daughter of an influential Communist Party leader.

Meanwhile, while the Justice Dept. was probing alleged leaks of satellite knowhow to China by Loral Space & Communications Ltd., Clinton gave Loral the O.K. to launch a satellite on a China Aerospace rocket. Approval came last February, despite objections at it could undermine any criminal case justice might bring. Loral CEO Bernard Schwartz was the largest single donor to Clinton's '96 campaign. Loral denies that it gave the Chinese any secrets or that it was granted any political favors.

Even Democrats can't shake off these allegations as partisan potshots. And the President's staunchest supporters are having trouble explaining why Clinton overrode advisers in March, 1996, and switched satellite licensing authority from the State Dept. to the Commerce Dept., a move that benefits Loral and China Aerospace by liberalizing export licensing. Did Clinton let campaign donations affect foreign policy? And did he help out a major supporter whose company was under investigation? "This is serious stuff, and it should be pursued," says Senator Joseph R. Biden (D-Del.), the ranking Democrat on the Senate Foreign Relations Committee.

At the least, the charges will dog Clinton during his late-summer trip to Beijing and intensify China-bashing on Capitol Hill. "It'll certainly cast a pall over the summit," says Greg Castel, vice-president of Washington's Economic Strategy Institute. "Clinton can't do anything that looks like he's pandering favors to the Chinese." What's more, the charges al-

low the GOP to put fund-raising abuses by the Clinton campaign back in the spotlight.

Congressional probes to date haven't really focused on the role of Chung, the Chinese-American businessman who has given Justice's campaign-finance task force its first direct link between China's government and Democratic coffers. Chung donated \$366,000 and visited the White House 49 times. Clinton aides saw him as a pesky hustler who would parade Chinese officials into the Oval Office. But Hill Republicans point out that Chung's money was welcomed, even if he wasn't.

House Speaker Newt Gingrich (R-Ga.) announced on May



TOP DONOR: Schwartz gave a big hand

19 that he is forming a select committee headed by Representative Christopher Cox (R-Calif.) to investigate. Other House Republicans are planning bills to ban high-tech exports to China. And they blame Clinton for spurring an India-Pakistan arms race. Their justification: India's claim that it conducted nuclear tests out of fear that the U.S. was providing China with missile technology that would be shared with Pakistan.

BAD TRIP. In the Senate, Majority Leader Trent Lott (R-Miss.) says he's rethinking his support for China's most-favored-nation trading status, which Congress is scheduled to renew in June. Lott has also urged Clinton to consider postponing the summit, though that's unlikely. But any chance of a breakthrough agreement—or of using the trip to deflect attention from Clinton's personal scandals—now looks diminished. "This trip is botched," says Heritage Foundation China analyst Stephen J. Yates.

The GOP's challenge now is to make the charges stick. Chung's confession won't be enough. Clinton says he knew nothing about the source of Chung's money and denies that China or Loral tried to influence export policy. What's more, Senate hearings into the alleged Chinese connection last year failed to find a smoking gun. But this time, the GOP thinks it has a loaded weapon aimed at the White House.

By Paula Dwyer

THE LORAL LINK

FEBRUARY, 1996 China Aerospace's rocket explodes on liftoff, killing dozens and destroying Loral's \$125 million satellite.

MARCH, 1996 President Clinton liberalizes commercial satellite exports by switching licensing authority from State Dept. to Commerce Dept.

APRIL, 1996 Loral shares an industry review of China's launch

failure report with Chinese.

JULY, 1996 China Aerospace exec Liu Chaoying meets Clinton at a fund-raiser. Forms company with Johnny Chung, who now says Liu is source of \$100,000 of his campaign gifts.

MARCH, 1997 Justice Dept. investigates whether Loral might have violated export-control laws by giving

technical assistance that could upgrade China's military program.

FEBRUARY, 1998 Clinton grants Loral new satellite export waiver despite Justice's objections that it could undermine any criminal case.

MARCH, 1998 Democratic campaign contributions from Loral Chairman Schwartz and his company from 1995 to date: \$1.3 million.

ASIA

THE GLOBAL IMPACT



Six months—maximum. Back in December, when the International Monetary Fund was putting the finishing touches on its \$100 billion rescue package, that was the conventional thinking in the West on how long it would take for East Asia to start on the road to recovery. After all, anybody who bet on Mexican stocks when the IMF intervened in February, 1995, would have reaped a 100% gain in just five months. And now the Bolsa Index has tripled in value, to 5000.

Well, it has been six months. And if anything, Asia's recovery seems as precarious as ever. Indonesia is in political upheaval, and its econo-

Recovery will take years, and companies everywhere will feel the pain

my remains virtually frozen. In South Korea, worries over the domestic debt bomb continue to mount, and President Kim Dae Jung's reform campaign is losing political steam. Japan, which many had hoped would be the engine of growth, is instead sinking into recession and may send the region into another tailspin. After rebounding this spring, most of the region's stock markets have tumbled back down to their January lows. In smoldering Jakarta, investors are rushing to the airport.

As the full force of the financial typhoon hits the region's economies, the unsettling realization has set in that Asia's turnaround will be long-term and torturous. Instead of months, econo-



mists now say solid recovery in the most bombed-out countries could take half a decade.

Even the progress achieved so far could be swept away if the Asian flu strikes again. The most immediate threat is the falling yen, which, if unchecked, could trigger another round of devastating devaluations.

It's now becoming clearer that Asia's ordeal will have consequences for the rest of the world. Markets for commodities have crashed to four-year lows, a blow to emerging economies from Mexico to Russia and a harbinger of global deflationary pressure. Analysts are slashing forecasts for world demand for semiconductors and aircraft engines.

While America's economy is still sizzling, dreary earnings reports from the likes of Hewlett-Packard, Motorola, and National Semiconductor reveal that the U.S. blue chips are starting to feel the pinch. What about companies just starting to factor Asia into their growth plans? Any payoff is distant. "I don't think we'll see order and tranquility emerge anytime soon," says Ford Motor CEO Alexander J. Trotman. "We're looking at quite a few years of instability."

Has the IMF rescue been a colossal flop? Not exactly. Although the agency clearly made mistakes, it has halted the free fall in currencies ranging from the South Korean won to the Philippine peso. New governments in Thailand and Korea have begun to force reforms on distressed banks and companies and establish the foundations of a modern financial system. By playing hardball with Indonesia, the IMF inadvertently set in motion a backlash that could topple the Suharto dictatorship.

Yet the bailout has failed to restore confidence in Asia's equity markets and has done little to defuse an even bigger debt bomb in local-currency loans to private companies. In Korea, where banks continue to funnel funds to the teetering *chaebol*, bad loans are expected to balloon from \$50 billion last December to \$90 billion by yearend. Analysts such as Stephen Marvin at Ssangyong Investment & Securities say Korea is on course for another financial crisis. **LOSING PATIENCE.** In truth, for the Asia recovery plan to have worked smoothly, a lot of things beyond the IMF's control had to go right. Tokyo needed to stimulate its economy and solve its own debt crisis so that it could absorb exports from its neighbors. Instead, Premier Ryutaro Hashimoto is pumping \$120 billion into dubious domestic public-works projects and tax rebates that will do nothing to kick-start regional growth.

That's bad enough. But now Japan seems ready to drop an even bigger bomb—a steep slide in the yen. On May 19, the yen hit 137 to the dollar: It could reach 150 by yearend. Especially hard-hit would be Korea, which competes with

Japan in cars, steel, and ships. The yen's slide puts more pressure on Beijing to devalue. That "would make Asia's recovery hopeless for some time to come," frets Samsung Economic Research Institute economist Kwon Soon Woo.

Grim news for the Asians. But for the U.S. economy, Asia's woes have helped keep inflation in check and interest rates low. Yet confidence that Asia's markets won't be missed is being put to the test. In this year's first three months, U.S. exports fell by 3.4%—the first quarterly drop in three years. Washington's Institute for International Economics reckons the total cost to U.S. manufacturing output—factoring in lost exports, more Asian imports, and the lower prices on goods—will be \$75 to \$100 billion this year.

Reports from the front lines aren't encouraging. CSX Corp.'s containers arrive in U.S. ports laden with goods but return to Asia empty. Says CSX CEO John W. Snow: "The weakening of U.S. exports is clear to us." It's clear to the Asians too. "One trillion dollars has been wiped out in the region as a result of this crisis," says Francis Yeoh, managing director of Malaysian construction giant YTL Corp. "That's a lot of Boeing 747s, a lot of Airbuses, and a lot of power plants we're not going to buy."

Corporations are having to rethink basic assumptions.

Earlier this year, most analysts predicted at least 7% growth in the \$136 billion world semiconductor industry. Due partly to Asia, especially Japan, research firm In-Stat now expects demand to contract by 0.6%.

Meanwhile, in Asia the crisis is feeding on itself. The benefits of the jump in exports to the West have been wiped out by the plunge in exports to neighbors. Japanese banks may have up to \$44 billion in dud loans around the region and have only begun to set aside some reserves for write-offs. In Indonesia, Korean banks have some \$10 billion in loans and bond holdings. The more serious danger is if foreign investors lose patience and write the region off as a backwater. A blowup in Indonesia could taint the image of all of East Asia. Says Choong Khuat Hock of Kuala Lumpur-based Caspian Research: "In these days

of international capital flows, perception counts a lot."

The perception now is that a few more big setbacks could cause the entire Asia bailout to unravel. Clinton Administration officials remain sanguine. Says one top Clintonite: The odds of Asia Meltdown II are "less than 50%." Considering the global consequences of another Asian blowout, those odds are too close for comfort.

By Pete Engardio in New York, with Brian Bremner in Tokyo, Michael McNamee in Washington, Moon Il Hwan in Seoul, and bureau reports

ASIA THE GLOBAL IMPACT

Why the Asian Rebound Is Fizzling

INDIA

One of Asia's bright spots provokes economic sanctions by the U.S., Japan, and Germany and the cutoff of World Bank loans by testing nuclear devices. Pakistan may be next.

INDONESIA

Riots in Jakarta and broken promises by Suharto to implement IMF reforms have sent stocks and currency into another tailspin, raising investor doubts about stability in the rest of Asia.

JAPAN

What should be Asia's engine of growth instead is sliding into recession as Tokyo has ignored pleas to stimulate domestic demand. Now, the

weakening yen threatens to deliver another currency shock to its neighbors.

SOUTH KOREA

High hopes of a turnaround after the election of President Kim Dae Jung and several successful offshore bond offerings have faded as political opposition has hobbled Kim's ability to reform banks and big business groups.

THAILAND

Despite following the IMF program, Thailand's bailout has failed to rejuvenate exports and stocks. After initial forecasts of flat growth, Bangkok now says its economy will contract by 7% in 1998, raising doubts about IMF policies.

DATA BUSINESS WEEK

Long-term perspective on Asia.
Unparalleled understanding of its
opportunities and challenges.
Commitment to the region today and
tomorrow.

Our Commitment to Asia

More than 50 years ago, BankAmerica made the visionary commitment to help finance Asia's development, and built a network to do it.

Today, our commitment is stronger than ever. Our in-country specialists and research teams across the region provide the hands-on knowledge and analysis necessary to thoroughly understand diverse Asian markets. Our product expertise and global financial strength enable us to answer capital raising challenges with innovative solutions. And our international network of issuers and investors ensures client access to opportunities and resources needed to grow businesses.

Today and tomorrow, BankAmerica remains dedicated to helping our clients in Asia move forward.

That's power in motion. That's BankAmerica in motion.

© 1998 BankAmerica Corporation



BankAmerica

www.bankamerica.com

power
in motion.™

FLIGHT TO SAFETY

Asian money heads West

The giant sucking sound from Asia is the noise of money leaving. Some \$50 billion has sluiced out of Indonesia. Japanese investors bought a record \$21 billion in foreign bonds and equities in the first 10 days of April. And South Korean companies now routinely keep export receipts in dollars, rather than changing them into weak won.

A lot of Asia's capital is heading to Wall Street and Europe, where it's helping propel stock markets to record highs. Asian cash now comprises a big chunk of the \$4 billion pouring into U.S. large-cap and index mutual funds each week, say analysts at AMG Data Services in Arcata, Calif. The torrent also has buoyed the dollar and kept U.S. interest rates lower than they might have been.

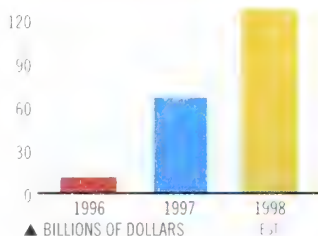
Capital outflows are likely to accelerate (chart).

For one thing, Japan's rising trade surpluses give it billions more to invest. And sustained capital flight could have a devastating impact on Asia itself. Its shell-shocked economies are losing the cash they need to recapitalize banks and restart growth. Worse yet, these countries are caught in a vise. Take Indonesia, Malaysia, the Philippines, Thailand, and South Korea. In 1996, they received \$93 billion in private capital. But last year, \$12 billion flooded out—a \$105 billion swing equaling 10% of their gross domestic product.

The risks are even greater in Japan, the region's biggest economy. And, because Japan is a major player in world markets, a massive run on the yen could destabilize the global financial system. The yen sank near 137 to the dollar at one point on May 19, its lowest level in more than six years. Top officials hint that Japan will defend its currency. Indeed, in April, the Bank of Japan threw \$21 billion, nearly a tenth of its reserves, into bolstering the yen. It pushed the dollar down to 127 yen on Apr. 10. But the greenback has rebounded since, as Japanese banks and pension funds shift massive amounts of cash abroad. "It's some sort of death wish," says F. Mark Turner, managing director of Boston's Schooner

ASIA THE GLOBAL IMPACT

Money Flows Out of Asia...



DATA: INSTITUTE OF INTERNATIONAL FINANCE INC., DEUTSCHE BANK, AMG DATA SERVICES

...Into the U.S. and Europe

Weekly inflows into U.S. mutual funds

FUND TYPE	AMOUNT* BILLIONS
U.S. LARGE CAP. INDEX, INCOME, AND GROWTH	\$4.3
EUROPEAN EQUITY	0.3
OTHER INTL. EQUITY	0.5

*Week ended May 13

Asset Management Co. "Every night, Japanese institutions are the major sellers of their own currency."

Ordinary Japanese, facing a dead-in-the-water stock market and crumbling yields of 1.3% on long-term bonds, are heading for the exit, too. In little more than a year, Japanese investors piled \$4 billion into Alliance Capital Management bond funds investing in high-yielding emerging-market and U.S. corporate debt.

Any further pickup in the outflow could spark a dramatic plunge in the yen. Pessimists say the yen could eventually plummet to 200 to the dollar. Even if the yen doesn't fall that far, some government officials believe that 150 isn't out of the question. With interest rates so low and the government's plans for bank restructuring and financial deregulation a year or more away from producing any benefits, Japan may have no alternative to a cheaper yen and rising exports to stave off economic disaster. So, Japan now aims to "slow down the [yen's] depreciation, rather than stop it in its tracks," says Salomon Smith Barney economist Jeffrey D. Young.

"BIG BANG." In fact, financial deregulation may only hasten the outflow of cash. Since 1995, the Ministry of Finance has made it easier for foreign asset-management firms to compete for a bigger share of Japan's pension market. Then, on Apr. 1, the "Big Bang" deregulation allowed foreign firms to set up mutual funds locally. This has created a huge pipeline to pump capital out of Japan. And with \$10 trillion in household financial assets, the Japanese have plenty of cash to spare. Consumers' holdings of foreign bonds and equities already have doubled, to \$45 billion, in two years. The numbers will soar as more global products become available. Citibank branches in Tokyo have been mobbed by investors eager to purchase foreign assets. International assets under management at Fidelity Investments Japan have soared 40%, to \$10 billion, in the last six months, rising 12% in April alone.

Of course, Western markets could face problems from the onrush of Asian cash. A panicky acceleration of capital flight that flattens the yen could deal a resounding shock to the world financial system. And Asian investors could easily join Western markets by pulling capital back home once their region gets back on its feet. But for now, it's party time as Asian capital fires up Wall Street.

By John Templeman in New York and Brian Bremner in Tokyo



Sure, FedEx[®] and UPS[®] may promise you the world.
But not for seven bucks.



\$26



\$28



\$7*

What's Your **Global Priority?**[™] <---

.B09

Give us a few more days and Global Priority Mail[®] can save you up to 70% over FedEx and UPS on deliveries to 33 countries.
Great news for everyone. Well, almost everyone. To find out more, call or visit us on the web.

Call 1-800-THE-USPS ext. 1349 for a starter kit.



We deliver.

www.usps.com



DOUBLE WHAMMY If Korea's won also slips, Chinese exports may be hurt

CHINA

BATTERED BY THE YEN

Will China be forced to devalue?

For months, as the currency crisis roiled markets across Asia, the Chinese renminbi remained an island of stability. Officials in Beijing brushed off any talk of a devaluation, and their firm stance won much praise from central bankers worldwide.

Now, as Tokyo lets the yen slide, the Chinese suddenly are feeling queasy. Chinese exports to Japan and the rest of Asia have fallen, while domestic companies are fighting to stay competitive against a flood of cheaper imports. If Japan's action starts a cascade of competitive devaluations across Asia, Beijing will come under pressure to let the renminbi slip. That would send the region's economies into a free fall. "Allowing the overdepreciation of the Japanese yen is irresponsible," says Sa Qi, head of the Bank of China's research department.

China's position is delicate. The economy is clearly getting hit by the new competition. But an about-face on the currency would cost new Premier Zhu Rongji much credibility as he pieces together his reform plans. It also would send the tightly linked Hong Kong economy into another tailspin. But most frightening for Beijing is the loss of confidence in the banking system a currency devaluation would cause.

The devaluation worries come when unemployment is also a big concern. Economic growth could fall below 6.5% by

year-end, nowhere near the official 8% target. China needs high growth to absorb the more than 5 million workers expected to lose jobs this year as its companies restructure.

The biggest threat to China's mid- and low-tech companies isn't Japan itself, which exports high end goods. What the Chinese are worried about is how a Japanese devaluation could affect Korea. If the yen weakens to 150 to the dollar, the Korean won is likely to be devalued in an effort to make Korean industry competitive.

That would mean increased competition for Chinese companies that are already struggling to fend off the Koreans at home and in other markets. In China's steel industry, for example, profits are down in part because of new competition from the Koreans. That's also true in the petrochemical industry, a sector in which prices have dropped 20% since October. "There will be further pressure on domestic corporations," says Andy Xie, an economist with Morgan Stanley Asia Ltd. in Hong Kong.

Feeling the heat, the Chinese have upped export tax credits for textiles and are considering fatter rebates for machinery and electronics. Officials are also revving up cheap loans to spur exports in a variety of industries.

FINANCING IS SCARCE. The best Chinese officials can hope for is that its struggling Asian competitors won't be able to launch the full export assault that has been expected. So far their weak economies have made export financing difficult to come by. And depressed currencies have hurt purchases of imported components, which represent half the value of exported goods. So the negative effects of Beijing's strong currency have been diminished somewhat. Meanwhile, China has managed to crank up sales to the West, as its Asian exports have faltered. Many Chinese officials doubt that trend can be sustained as other Asian economies begin dumping just to clear inventories.

China will be in a stronger position to withstand currency shocks if it can step up domestic growth. A lot depends on Zhu's ambitious plans to increase public spending and open up the economy. Beijing just announced 117 huge state construction projects in telecommunications, agriculture, and transportation to be started this year. At the same time policymakers are discussing plans to further

open China's service sector to foreign competition, starting with the tourism and wholesale distribution industries. "Some would argue that China is going to step into the breach during this period and actually come out stronger," says a Beijing-based Western economist.

That would go a long way toward helping Beijing's monetary authorities preserve the luster of the nation's hard currency. But China's success ultimately may depend as much on events in Tokyo as on those in Beijing.

*By Dexter Roberts in Beijing
and Joyce Barnathan in Hong Kong*

ASIA
THE GLOBAL IMPACT



Shower in our lounge.

Feeling refreshed. It's not a luxury you'd associate with business travel. But we've decided to change that.

- () As part of our new First and Business Class service,
- () we've put showers in our airport lounges in Frankfurt, Munich, Dusseldorf and New York (JFK). So now, business travel is significantly more comfortable. And more comfortable travel is what people count on when they fly Lufthansa.



STAR ALLIANCE
The airline network for Earth.

Fly on Lufthansa or our global partner United Airlines and you can accrue or redeem miles in either Lufthansa Miles & More® or United Mileage Plus® in accordance with the terms and conditions of the programs.
www.lufthansa-usa.com

UP IN SMOKE

How the IMF's rescue plan for Indonesia exploded

BY MICHAEL SHARI

The IMF delegation fled at dawn. As the Indonesian capital still smoldered from the May 14 fires set by rioters during Jakarta's most devastating demonstrations yet, eight expatriates working for the International Monetary Fund and two spouses set out for the military airport to catch a chartered flight out of the country. Leaving early to avoid bandits searching cars along the way, they skirted burned-out trucks, toppled lampposts, and debris. In a final humiliation, immigration officials kept the group at the airport—first finding fault with their visas, then using them to bargain for a planeload of food and water. After six hours and phone calls to government officials, the IMF staff finally boarded an evacuation plane to Singapore.

With the flight of the IMF delegation, the fund's \$43 billion bailout plan to help stabilize Indonesia is dead, at least for now. The \$4 billion already spent to prop up the economy is gone. The program may start up again in a new form, but it's hard to see how the IMF could disburse funds in the midst of ongoing economic chaos. The devastation of Indonesia calls into question the efficacy of not only the IMF but also the behind-the-scenes activity of the U.S. Treasury Dept. It raises doubts on whether these two institutions can ever again muster the support to embark on such costly and risky rescue missions.

AGING DICTATOR. While the IMF and the Treasury made their share of missteps and miscalculations, the Indonesians matched them and even surpassed them with their own blunders. Both the Indonesians and the IMF misjudged the scale of the crisis. President Suharto erred by backtracking on promises to reform Indonesia's economy and by protecting his family and cronies. The IMF wrongly assumed that Suharto would commit to change and then pressed for draconian reforms that undermined the essential supports of the economy. In particular, the IMF's insistence that Suharto end subsidies for gasoline and food set the stage for riots that have torn through the country.

At the center of this tragedy is Suharto himself, an aging dictator who one day seems to grasp his country's economic realities in minute detail—and the next seems out of touch. The 76-year-old leader who has spent 32 years in power has been determined to preserve his clan's vast wealth. In echoes of Malaysian Prime Minister Mahathir Mo-

hamad, sources close to him say the leader of the largest Muslim nation on earth is obsessed by conspiracy theories. A visitor to the presidential palace in March quotes Suharto as saying the IMF was plotting with Israel to undermine Indonesia's aircraft industry. "The IMF consists of a lot of Jews, and that's how Israel influences the IMF," Suharto said. Then, Suharto explained in a fatherly manner the real reasons behind the riots: "This is the opposition creating chaos, together with foreign investors who want to take over our assets at deeply discounted prices."

None of these weaknesses were apparent just a year

ago. Sure, Suharto was the practitioner par excellence of crony capitalism, a man who gleefully ladled out monopolies and franchises to his children and old friends. But he also won praise for opening up Indonesia to free trade, scrupulously servicing the national debt, raising prosperity, and practicing artful diplomacy with the U.S.

Thus when the Asian financial crisis began in mid-1997, Indonesia seemed a safe bet. As the rupiah weakened after the Thai crisis, Suharto's ministers called in the IMF, winning praise for their judicious and timely appeal for international aid to stop speculators in their tracks. When IMF officials first sized up their mission,

they reassured Suharto that the economy was sound. The IMF saw no need to expand its cramped one-man office in a back room of the central Bank Indonesia. It suggested simply widening the band in which the currency traded.

But the Indonesian rupiah kept tumbling. That's when the IMF made its first major mistake. The officials assumed they could apply the bitter medicine of high interest rates to stabilize the currency and reform the crony-ridden banking system. The IMF also wanted to dissolve the monopolies run by Suharto's friends and children, and dissolve costly subsidies. The fund got Suharto's economic adviser, Widjojo Nitisastro, to agree to this in early October.

But there was a fundamental flaw. Suharto knew that the IMF prescription would directly threaten his hold on power. The monopolies were the keystones of the Suharto family's control of the economy. And low prices had kept impoverished Indonesians from rebelling against the President for decades.

Yet Suharto had to take some steps to build confidence. His first one, on Nov. 1, was to close 16 weak Indonesian banks, as recommended by the IMF. His intention was to stimulate confidence by signaling that serious banking re-



SIGNING: *Camdessus irked Suharto*

ASIA
THE GLOBAL IMPACT



(one simple
step)

Introducing
the AT&T
speed dial
feature

Fine hotels overseas now offer an

credibly fast and easy way to call back to the States.

the AT&T speed dial feature. It makes accessing

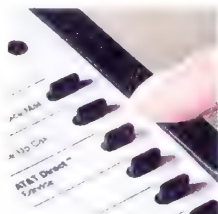
AT&T Direct® Service faster and easier than ever.

It's all within your reach.



AT&T

The new AT&T **speed dial** **feature** makes calling back to the States easier than ever.



Now accessing **AT&T Direct**® Service from your hotel room can be as simple as pushing

a button. So you're in touch with those back home faster and without having to dial an

international access number.



AT&T Direct provides fast connections with the

clearest sound quality* on calls back to the States. Always look for hotels that offer the convenience of the

AT&T speed dial feature. It's another innovation that makes your life easier from

the world's most powerful network. AT&T.



Available at these fine Asian hotels:



The Shilla Seoul
LEADING HOTELS OF THE WORLD
Seoul, Korea
Tel.: 82 2 233 3131

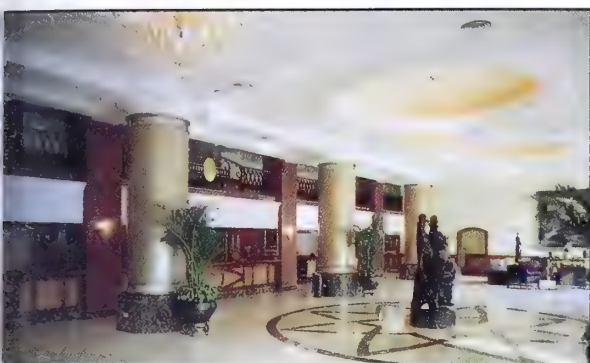
Located in the heart of Seoul, this fine hotel offers business travelers the modern conveniences they require. Rooms have a dual-line telephone system with multilingual voice mail, a fax machine, data ports and Internet access. There are 15 conference and banquet rooms. The business center has video conferencing capabilities.



Seoul Hilton
Seoul, Korea
Tel.: 822 753 7788

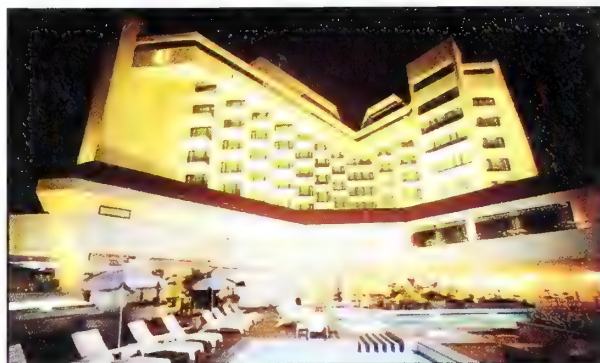
This recently refurbished 700-room hotel offers a perfect base for doing business in Seoul. Easy access to major business districts and tourist attractions. The latest in-room technology with dataports and fax machines. State-of-the-art convention centre, ballroom and eight function rooms. Complete business support facilities and services around the clock.





Hotel National Taichung
Taichung, Taiwan
Tel.: 886 4 321 3111

A 5-star hotel equipped for the business traveler. The comfortable conference room has an over-head projector, a slide projector and a screen. There is a fax, copy machine and printer at the front desk. The staff provides personalized service in an elegant setting.



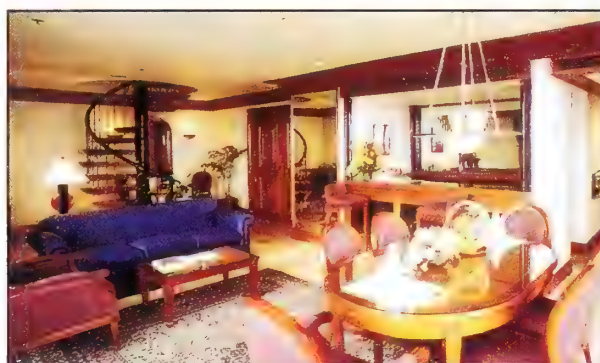
The Heritage Hotel Manila
Pasay City, Philippines
Tel.: 632 891 8888

Located on the bay close to major commercial districts. It is only minutes from the international airport. The 467 rooms have individually controlled air conditioning, bedside control panels, color TV with CNN and Star TV, minibar. 24-hour room service is available. There is a Millennium Executive Club floor.



Cebu Plaza Hotel
Cebu City, Philippines
Tel.: 63 32 2311 231

Cebu's landmark business resort hotel sits on top of Nivel Hills with a magnificent view of the islands. A first-class hotel with 420 luxurious rooms and suites including an Executive Floor, the President's Club. Banquet and convention facilities for 1,000, plus ten smaller function rooms. Recreational facilities include tennis, mini golf, swimming pools, jogging trail and playground.



Manila Galleria Suites
Pasig City, Philippines
Tel.: 632 633 7111

Spacious, luxury accommodations located in the rapidly developing Ortigas Center. Adjoining Robinsons Galleria, an ultra-modern shopping complex. Restaurant, bar and 24-hour room service. Complimentary breakfast served daily. Fitness center with pool. Beauty salon.



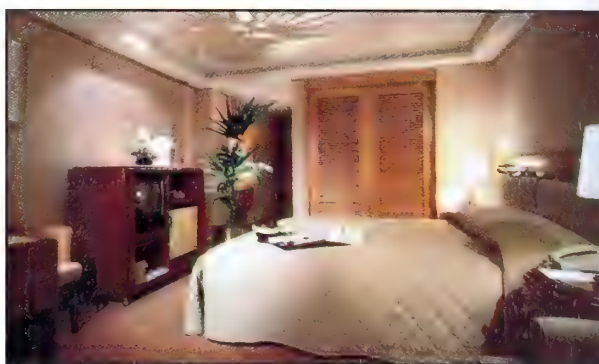


Asiaworld Plaza Hotel
Taipei, Taiwan
Tel.: 886 2 2715 0077

Centrally located in the financial district of Taipei. Easy access to all major freeways. The hotel has 37 restaurants and 50 function rooms with over 1,000 guestrooms. Adjacent to major shopping mall and Hard Rock Cafe. A VIP floor and business center are also available. Limo and shuttle bus run regularly to and from the airport.



環亞大飯店
ASIAWORLD
PLAZA HOTEL TAIPEI



Rebar Holiday Inn Crowne Plaza
Taipei, Taiwan
Tel.: 886 2 2763 5656

Conveniently located in the newest financial and commercial district near the World Trade Center and prestigious shopping area in Taipei. The 300 guestrooms are decorated in a post-modern motif. For the convenience of frequent travelers, the HOLIDEXLINK Reservation System smoothes your way with bookings and confirmations with any Holiday Inn worldwide.

REBAR
Holiday Inn
CROWNE PLAZA®
TAIPEI
 力霸皇冠假日大飯店

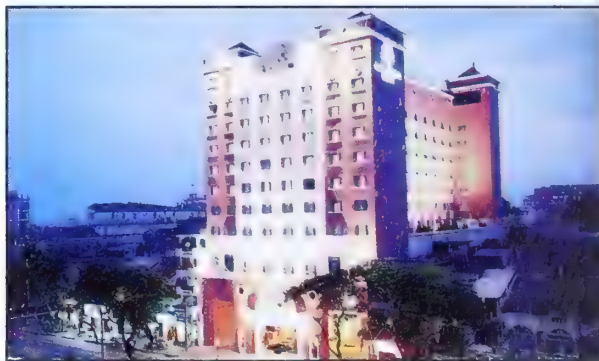


Norfolk Hotel
Ho Chi Minh City,
Vietnam
Tel.: 848 829 5368

Located in Ho Chi Minh City's central business district with easy access to historic sites. A full range of business services, including conference facilities for up to 180 guests. The Norfolk Hotel specializes in business travelers' needs.



NORFOLK HOTEL



Saigon Prince Hotel
Ho Chi Minh City, Vietnam
Tel.: 848 822 2999

An elegant international hotel catering to the traveler who seek personalized and courteous service. Located in the heart of Ho Chi Minh City with direct access to government, business and shopping areas. There are 203 well-appointed rooms and suites, excellent conference facilities, business center and restaurants.



Look for these and other fine hotels worldwide that have the AT&T speed dial feature.

For more information, check out the AT&T Worldwide Traveler Web Site at <http://www.att.com/traveler>

©1998 AT&T. All Rights Reserved.



arm was at hand. In a country of 220 banks—
or too many for a \$250 billion economy—the
IMF figured that international investors would
welcome such prudence.

Instead, Indonesians saw the shuttering of big street-corner banks as a reason to pull their money out of all banks. The big neon bank signs overlooking the main drag of Jakarta's Chinatown went dark, depositors panicked and withdrew their life savings. At foreign banks such as Citibank and Hong Kong Bank, lines snaked around the block as people attempted to deposit their money in safer places.

Then Suharto backtracked, giving his first sign that he was not serious about reform. He allowed a bank operated by his son Bambang Trihatmodjo, though targeted for closure, to reopen for business after simply changing its name.

LUNGING RUPIAH. Next, Suharto fell sick, introducing confusion and delay. In early December, Widjojo, who had been shuttling between meetings with Suharto, the IMF, and the World Bank, told negotiators that the President was too ill to work on the deal. That put further IMF reforms in limbo. When visiting Australian political scientist Harold Prouch was told that the President was urinating blood, it raised fears that he might die without a successor and that Indonesia could explode into violence. As Suharto canceled a trip to Kuala Lumpur for a summit of Southeast Asian leaders, the rupiah plunged on the news.

Precious weeks were lost before Suharto recovered. Then he made a critical blunder. On Jan. 6, the weakened leader announced an overly optimistic national budget that seemed out of line with reality—expectations of 4% annual economic growth, 11% inflation, and an exchange rate of 2,000 rupiah to the dollar—although the currency was then trading at 8,000. He ignored—or was unaware of—independent economists' predictions of a 15% contraction in the economy and 55% inflation for 1998.

The impact was disastrous, dragging the rupiah below the psychological barrier of 10,000 to the dollar. Millions of Indonesians rushed to convert their rupiah into rice and other foodstuffs. Then they snapped up electronic goods, triggering runaway inflation would drive prices beyond reach.

Concern throughout the world was growing, and negotiators were losing patience. On Jan. 13, U.S. Deputy Treasury Secretary Lawrence H. Summers and other Clinton Administration officials met Suharto at the presidential palace. In preparation for a scheduled 45-minute meeting, Summers was instructed not to show the soles of his feet or hold his arms—insulting gestures in Indonesia. Summers expected a serious, frank discussion of the situation. To his surprise, his host instead took the first 40 minutes for "Indonesia 101": how Suharto single-handedly transformed Indonesia from a beggar nation with a per capita income on a par with Bangladesh to a thriving manufacturing economy.

Fearing he had little time left, Summers hung on for at least another 20 minutes trying to make his points, even though the President refused to respond and appeared to be trying to end the session.

Summers walked out of the meeting deeply disappointed. What happened after the U.S. delegation left Suharto's office is still disputed. A U.S. source says Summers was so upset that his colleagues feared he would tell reporters gathered at the front gate that Suharto's intransigence was putting the IMF's rescue in doubt. As Summers headed

ASIA THE GLOBAL IMPACT

outside, U.S. Ambassador J. Stapleton Roy prevailed on him to go easy, the source says. When Summers met the reporters, he read from a prepared statement blandly describing

Suharto's desire to restore confidence.

The jawboning did seem to have some effect on ongoing negotiations. The IMF had decided on a new strategy to extract concessions, asking for every tough measure it could think of in hopes Suharto would accept at least some. Unlike the first reform deal, this one had firm deadlines. The IMF demanded the abolition of a dozen "economy-distorting" monopolies by February. Those were also the cash cows of the ethnic Chinese businessmen who built up the Indonesian stock market in the early 1990s. They included the plywood cartel of Suharto's fund manager Mohamad "Bob" Hasan and the Bogasari flour-milling monopoly of his old friend Liem Sioe Liong.

To the shock of IMF negotiators, Suharto's advisers came back with an oral agreement from him to implement everything the negotiators had asked for. Nobody knows why the Indonesians assented—except perhaps to buy time or because Suharto was exasperated and wanted to end negotiations. Some say he may have been sincere. Looking back in regret, negotiators now admit that if they had known Suharto would agree, they would have written into the deal a period of adjustment and monitoring of at least six months. Instead, they wound up with a ludicrously ambitious plan that could never have met the strict deadlines imposed and that set the stage for failure.

Official negotiations to draw up the agreement had started Sunday evening, Jan. 11, after Suharto agreed to rough terms during talks with IMF First Deputy Managing Director Stanley Fischer at the President's modest Dutch colonial house. Fischer then led more than 15 IMF economists across town to the cavernous Finance Ministry and broke them up into two teams in adjacent conference rooms. They haggled with Indonesian negotiators until 4 a.m. over the language of a 50-paragraph letter of intent.

The meetings continued from breakfast to midnight for the next three days. They were fueled by tiny 150-ml bottles of Krating Daeng, a highly caffeinated "energy drink" favored by Javanese truck drivers, plus endless deliveries from Pizza Hut and regular bouts of rude joke-telling.

By the time they had agreement, the IMF had aroused the hackles of the Indonesian public. A key public relations blunder occurred when IMF Managing Director Michel Camdessus flew in from Washington to sign the new agreement at Suharto's residence on Jan. 15. He was surprised to find only one chair at the podium in the glassed-in visitor's parlor reserved for Suharto, so he had to stand. As the cameras flashed and Suharto signed, Camdessus stood over the President, his arms folded across his chest like a re-proving schoolmaster. No offense was meant, says Camdessus: "When I was a boy, my mother told me, 'When you don't know what to do with your hands, do not hold



SUMMERS: Upset with Suharto

CONSPIRACY THEORY

“The IMF consists of a lot of Jews, and that’s how Israel influences the IMF”

— SUHARTO

them behind your back like the Duke of Edinburgh. Fold them in front of your chest." The next day, with the photo plastered across the local papers, talk in Jakarta focused on Camdessus' humiliation of the President.

The rupiah continued to plummet, cheapening Indonesian assets to a level that seemed to support Suharto's theory that the IMF would help foreign investors take over the country. By the end of January, it was clear that Suharto had no intention of forcing Indonesian companies to work out their total debt of nearly \$80 billion with foreign banks. "In effect, Suharto told Indonesian corporates not to repay their debts," says Neil Saker, economist at SocGen-Crosby Securities Ltd. in Singapore. Confidence hit bottom, sending the rupiah below 18,000 to the dollar.

LOST CREDIBILITY. In early February, Suharto committed his biggest misstep by making it clear he was interested only in quick fixes. He announced a plan for a currency board. At the behest of his children, he met privately with Johns Hopkins University Professor Steve H. Hanke, who claimed experience in instituting foreign exchange mechanisms. Hanke presented only the upside of such a move. His plan would have pegged the rupiah to 5,000 to the dollar and backed it with U.S. dollar reserves—which, according to the IMF, the country didn't have.

The idea was widely decried as a way to give Suharto's cronies and family members a window for converting their fortunes into dollars and leaving the country penniless. "This was the most disastrous debate in the history of Indonesia," laments one negotiator. "It cost the country dearly in terms of credibility." Hanke could not be reached for comment.

As the rupiah fell further, opposition to the currency board grew. Trying to keep his plan alive, Hanke told one negotiator he knew foreign bankers who would lend Bank Indonesia enough money for a board on one condition: that the national oil company, Pertamina, put up its cash as collateral. The negotiator laughed: Pertamina is dominated by the Indonesian military and the Suharto family. Such a thing was impossible.

Worried that an economic collapse would kick off regionwide instability, world leaders jumped into action. Delivering coordinated messages, U.S. President Bill Clinton and German Chancellor Helmut Kohl phoned Suharto during the week of Feb. 15, and Clinton dispatched former Vice-President Walter Mondale to Indonesia the following week. They begged Suharto to abandon the currency board idea and honor his commitments to the IMF. Japanese Prime Minister Ryutaro Hashimoto, who had first phoned Suharto to after the budget debacle in January, visited Indonesia three weeks later.

The result was that Hanke was abruptly abandoned. But in return, Suharto wanted a third, softer deal with the IMF. He threatened to cut off Indonesia's economy from the outside world unless he got it. Continuing his brinkmanship, on Mar. 11, Suharto had himself reelected to a seventh term. That day, the IMF voted to withhold \$3 billion.

Increasingly defiant, Suharto packed his cabinet with

his closest cronies. He blatantly protected white-elephant projects such as a multibillion-dollar aircraft factory run by his new vice-president, B.J. Habibie, and the elevated-commuter-train project granted to his daughter and new Social Affairs Minister, Siti Hardiyanti Rukmana, or Tutut. "This is not the Republic of the IMF," proclaimed Bob Hasan, the plywood monopoly tycoon whom Suharto named his Minister of Industry & Trade.

But by the third week of March, the IMF's negotiators realized they could trigger a social disaster in Indonesia if they walked away. So they trudged back to the negotiating table, resigned to granting concessions. "And by the way, this time we're giving in to Bob Hasan," one dejected negotiator admitted. Predictably, international economists saw a loss of credibility for the IMF. "The teacher is not only giving the bad pupil the most attention but also making the test easier and moving him up to next grade—even though he flunked the exam," says Rajeev Malik, senior economist at Jardine Fleming International Securities Ltd. in Singapore.

Both sides tried to keep the talks as quiet as possible. For three solid weeks, night and day, the negotiators stayed at the table. Ashtrays in the two Finance Ministry meeting rooms overflowed with cigarette butts and pizza crusts. Suharto refused to sign the letter of intent himself, letting Coordinating Minister Ginandjar Kartasasmita—his latest negotiator—sign it on Apr. 8 and send it by courier to Washington. There was no ceremony. Camdessus did not set foot on Indonesian soil.

IMF negotiators finally thought they had the goods—by reaching a deal strong enough to push the economy in the right direction but with enough concessions to prevent another showdown. By the end of April, the IMF said it would resume aid payments in \$1 billion installments. In return, on May 4, the government abruptly lifted price controls on fuel. The IMF had wanted an end to subsidies but had not pressured Suharto for such a sudden move. Riots by desperate Indonesians broke out across the country.

Some political analysts think Suharto removed price controls in a calculated attempt to derail the IMF. He provoked a crisis, the reasoning goes, so he could crack down on dissent, restore his authority, and prove beyond a doubt the folly of the IMF prescriptions.

The utter failure of the bailout of Indonesia will serve as a lesson to all countries that seek IMF aid in the future. To Camdessus, the lesson is that leaders such as Suharto should honor their pledges: "It's better when you initiate a program to stick to it rather than negotiate it three times."

Many observers are more harsh on the IMF. They say its experience in the archipelago has set a precedent for desperate governments to build their own credibility by making mockery of the IMF. "There are no heroes in this story. It's not black and white," says economist Thee Kian Wee of Jakarta's Indonesian Institute of Sciences. Whatever the lesson, the IMF's Indonesia program was not a shining example of either the doctor or the patient on their best behavior.

With Dean Foust in Washington

ASIA THE GLOBAL IMPACT



SCARCE: Rushing for goods before inflation raged

Vantive Announces The Customer Bill Of Rights

Vantive has emerged
as the number-one
supplier of sales,

marketing, call center and field service — we
call these *Front Office* — software systems. Sure, we
offer spectacular technology. But we feel a larger reason
for our customer acceptance has been the application of
plain-and-simple grade-school ethics. It starts with our
talk-to-any-customer open-book reference policy, and
continues with the elimination of software licensing “gag
orders” that prevent you from telling the world about your
experience. In fact, we have formalized a complete

Customer Bill of Rights. You can
review it on our Website. If you
feel as we do, that creating a
customer for life is your most
important business goal, then isn't it
time you found out if your
application software suppliers share
that value?

Log onto our Website for an
up-to-date list of companies that
have agreed to *The Vantive
Challenge*.™ Is one of your
important corporate partners

conspicuously ... absent? If they are, isn't it in your best
interests to ask them why?

Vantive.
Because Customers
Are Your Most Valuable Asset™

Call 1-800-VANTIVE

1-800-826-5455

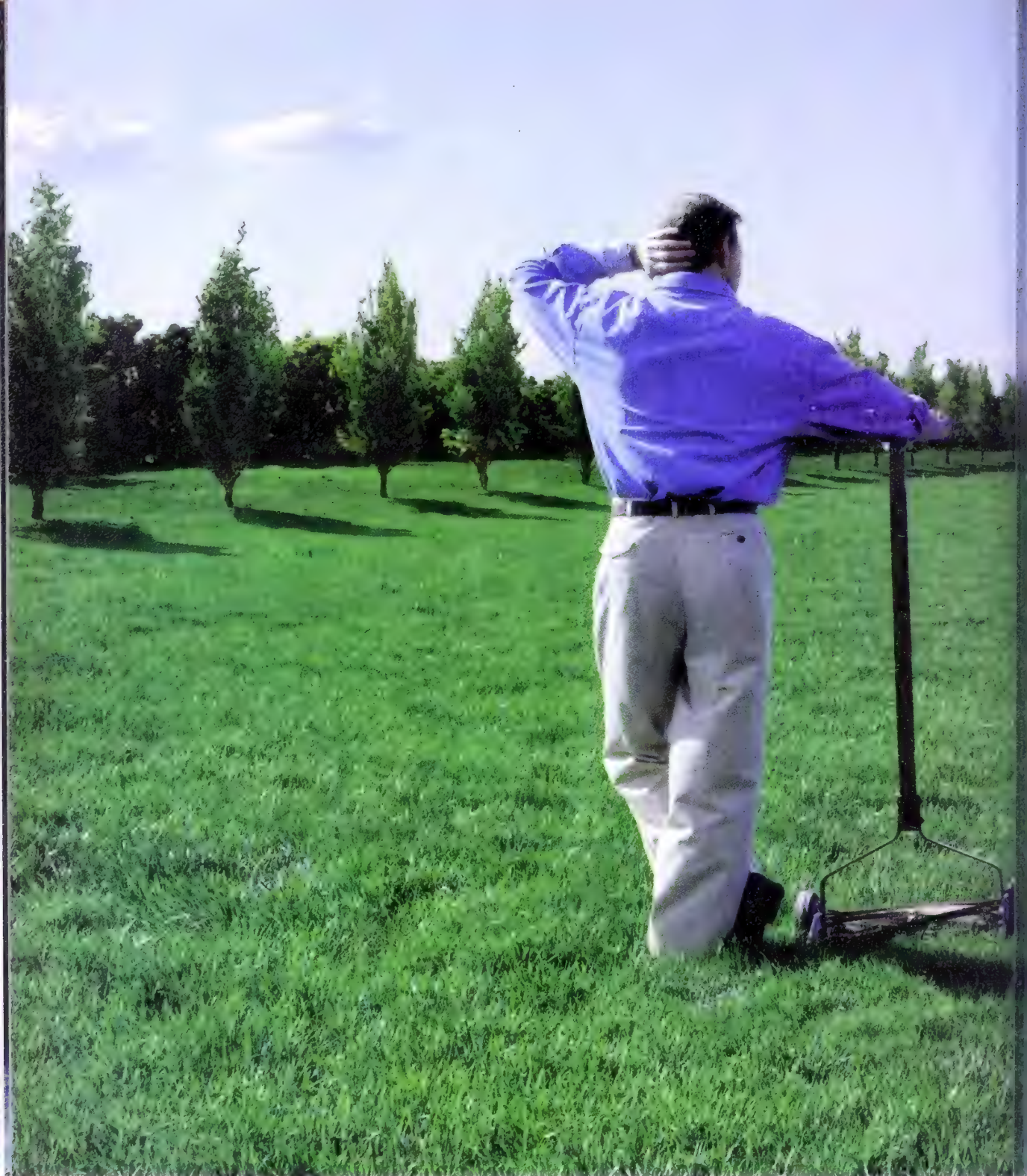
(408-982-5700 from outside the U.S.)

www.vantive.com/ethics

*“I have personally challenged the
executives of every major software
company to live by a new standard.
Now, it's up to customers to demand
open-book references and user-
centric program license agreements,
especially from
vendors of
customer-
facing
apps.”*

OPEN-BOOK REFERENCES
FREE SPEECH
STANDARD LANGUAGE
FULL DISCLOSURE
NO SURPRISES

John Luongo, President & CEO
The Vantive Corporation



Whether it's high-volume black and white or full-color solutions, Canon has the right tools for the

When faced with an overwhelming workload, it's good to have office equipment

that's up to the task. Like Canon's high-volume systems. Digital or analog,

our high-volume machines are designed so you can handle your biggest

WITHOUT THE RIGHT EQUIPMENT
A BIG JOB CAN SEEM EVEN BIGGER.

with very little effort. And all have finishing capabilities that can improve your productivity from the start. Not to mention the image quality and reliability that have become the standard in the industry. So choose the right equipment — high-volume black and white or full-color solutions from Canon. Suddenly, those big jobs aren't so big anymore.



ANYWARE™

Canon

Scott A. Schuff was just 13 when he started working in the shop of the small steel plant his father managed in Phoenix. High school summers were spent drawing blueprints and estimating costs for complex construction projects. In 1976, when his father, David, struck out on his own and started Schuff Steel Co., 17-year-old Scott joined him. Two years later, he dropped out of college to work full-time. "You learn a lot faster on the job," says Schuff, now 39 and chief executive officer.

The education is paying off. Schuff Steel has a lucrative niche in "fast-track" contracts, where construction begins before the design is finished. Schuff has landed several large projects in the past few years, including jobs for Las Vegas' Mirage Resorts Inc. and MGM Grand Inc. hotels. Now it is tackling its toughest job to date: a half-scale Eiffel Tower replica for Hilton Hotels' Paris Las Vegas hotel.

Schuff's performance proves you don't have to be in high tech to generate scorching growth. Over the past three years, the steelmaker has racked up annual earnings and sales growth of 48.3% and 30.1%, respectively. With 1997 earnings hitting \$7.2 million on sales of \$138.2 million, Schuff barreled its way to No. 40 on *BUSINESS WEEK's* list of the 100 fastest-growing small companies. And while any construction company is vulnerable to downturns, so far Schuff's key markets, including Arizona, California, and Nevada, continue to boom. "They're in a pretty sweet part of the market right now," says David Fondrie, an analyst at Heartland Advisors, Schuff's largest outside shareholder.

That combination of business savvy, relentless focus, and discipline is behind the success of each company on our Hot Growth list. These tiny operators have outgunned their larger rivals, generating average annual sales and earnings growth of 59.8% and 102.8%, respectively, over the past three years. That compares with 7.6% and 9.8%, on average, for companies in the Standard & Poor's Industrial index. And return on capital for these 100 companies averaged 31.1%, while the S&P average was just 11.9%.

So how do companies make the list? Often by being in the

Business
savvy, the
right focus,
and a little
bit of luck
are a potent
combo



HOT GROWTH COMPANIES



right place at the right time when bigger companies farm out key work. That's how Kendle International Inc., which helps test new drugs for pharmaceutical giants such as Parke-Davis and Bristol-Myers Squibb Co., grabbed the No. 1 spot. Another big recipient of drug-company outsourcing is Boron, LePore & Associates Inc. (No. 24), whose marketing and promotional services include organizing doctor conferences and providing field-sales support.

Special Report

Of course, many winners did ride the high-tech boom. About half of the 100 provide computer or telecommunications products or services. Dunn Computer Corp. (No. 6) is a personal-computer maker that sells largely to U.S. government agencies such as the Justice Dept. Last year's No. 1 company, Yurie Systems Inc., which makes equipment for high-speed transmission of data, voice, and video, was No. 3 this year.

Yurie's success didn't go unnoticed: In April, Lucent Technologies Inc.—Yurie's biggest customer—said it would buy the upstart for \$1 billion.

NO GLAMOUR. While high-tech equipment is hot, software and services may be even hotter. JDA Software Group Inc. (No. 32) specializes in retail supply chain software, including inventory management and point-of-sale systems. Hall, Kinion & Associates Inc. (No. 9) recruits high-tech workers, including some from places such as Russia and India, to provide much-needed information technology workers to Silicon Valley. And Medical Manager Corp. (No. 8) develops software to automate doctors' offices. "Health care is one of the last areas to become more efficient," says Paul J. Rasplieka, senior portfolio manager at AIM Capital Development Fund. "There's a huge market here."

But plenty of entrepreneurs hit pay dirt in less glamorous fields. Take Coast Dental Services Inc. (No. 12) and Monarch Dental Corp. (No. 29), which compete in the crowded field of operating and managing dentists' practices. Or OMNI Energy Services Corp. (No. 13), which provides drilling, helicopter, and surveying services to oil companies in the swamps and marshes of the Gulf Coast and Alaska. And PJ America

TEST THE HOT

SALES

MILLIONS*

MEADOWCRAFT	\$145.1
COMPLETE BUSINESS	142.8
MIAMI COMPUTER	142.4
SCHUFF STEEL	140.1
SYNTEL	139.6

*Latest four quarters

SALES GROWTH

AVERAGE ANNUAL GROWTH*

YURIE SYSTEMS	192.4%
KENDLE INTL.	168.9
MEDICAL MANAGER	166.3
JAKKS PACIFIC	162.7
BRASS EAGLE	147.0

*Latest three years

EARNINGS

MILLIONS*

MEADOWCRAFT	\$26.6
VERITAS SOFTWARE	26.4
OCULAR SCIENCES	24.7
VISIO	21.8
DOVER DOWNS ENT.	20.8

*Latest four quarters

EARNINGS GROWTH

AVERAGE ANNUAL GROWTH*

HURCO	722.6%
ADVANCED DIGITAL	439.4
SUPERIOR ENERGY	346.8
BRASS EAGLE	341.5
THQ	294.3

*Latest three years

MARKET VALUE

MILLIONS*

LHS GROUP	\$3,085
VERITAS SOFTWARE	1,668
VISIO	1,379
SYNTEL	1,131
SAPIENT	968

RETURN ON CAPITAL

AVERAGE ANNUAL RATE*

DELTEK SYSTEMS	79.0
MEDICAL MANAGER	76.2
OPTEK TECHNOLOGY	67.7
INTEST	66.8
RETROSPECTIVA	62.9

*Latest three years

For Hoechst, Life Sciences means focusing on the fields of health and nutrition where biotechnology holds the key to innovation. Hoechst Marion Roussel, our pharmaceutical company, is developing highly effective drugs in the fight against currently incurable diseases. Our agribusiness, Hoechst Schering AgrEvo, is ensuring nutrition for the world's growing population through integrated crop production.



Life Sciences means a new
future for health and nutrition.

Hoechst means a new future
in Life Sciences.

The Future in Life Sciences

Hoechst 



pharmaceutical company,  the agribusiness and **Hoechst Roussel Vet** the animal health company.

Inc. (No. 11) serves up sizzling results as the largest franchisee of Papa John's pizza restaurants.

All these companies seek to follow in the footsteps of the more elite graduates of the BW Hot Growth 100. Back in 1985, then-unknown Computer Associates International was No. 14. Today, it is the third-largest software company, with 1997 revenue topping \$4 billion. Networking titan Cisco Systems, which made the list in 1991, has seen its stock soar

more than 5,000% since. New Line Cinema Corp., No. 11 in 1987, is now owned by Time

Special Report

HOT GROWTH COMPANIES

Warner Inc. and has released such hits as *Austin Powers*.

Before they make it to the big leagues, however, small growth companies want a little respect on Wall Street. In 1997, the fourth year in a row, small caps trailed their big-cap brethren in stock market performance. Market pros say large caps' continued strong earnings performance gave investors little reason to venture into smaller, less liquid stocks. And when small caps seemed to be rallying in the second half of 1997, Asia's financial crisis cut them short. So while the S&P 500-stock index rose nearly 32% in 1997, the Russell 2000, a barometer for small-company stocks, rose just 22%. "We've been sailing against the wind for a number of years," says David J. Evans, portfolio manager of the Robertson Stephens MicroCap Growth Fund.

The wind may yet shift. That's because small-cap stocks are simply a lot cheaper than big-company stocks. The price-

earnings ratio of the S&P 500 is now 22.4, based on projected 1998 earnings growth of 10.2%. The p-e ratio of the Russell 2000 is 20.4, but with much higher expected earnings growth of 20.6%. If small caps gain ground, that should help keep the market for initial public offerings chugging. According to S&P, 529 IPOs in 1997 raised \$43.6 billion. That's down from 1996, in which 737 deals raised \$49.2 billion, but it beats 1995 and 1996 levels.

IPOs are rife on this year's list—more than 35 of the 100. Hot Growth companies went public after January, 1997. The boom continues: In the first four months of 1998, 109 IPOs raised \$8.9 billion. The flow of venture-capital funds is also robust. A record \$10.4 billion was raised by 138 funds in 1997, with another \$5.1 billion raised by mid-May of this year.

Some clouds remain. If the Fed hikes interest rates or the Asian situation worsens, small caps probably will take a big hit. And of course, some highfliers will burn out, unable to manage such growth (page 88). Investors who are drawn to the high growth rates should also factor in the high attrition rate. If ever there was a case of past performance not guaranteeing future results, this is it. But for those who can handle the speed and dodge the swipes of giant competitors, the race has just begun.

By Amy Barrett in Philadelphia, with Steven V. Brull in Los Angeles

For customized reprints of this Special Report
call 212 512-3148 (minimum order 500).

For all other permission or reprint inquiries call 212 512-4801.

KENDLE INTERNATIONAL

THE \$44 MILLION MOM-AND-POP

Can good marriages be made in the boardroom? Candace Kendle Bryan, head of Kendle International Inc., a fast-growing Cincinnati drug-testing company, says so. Her secret: knowing how the personalities fit the task at hand. Bryan's husband, Christopher C. Bergen, is impulsive and well-suited to short-term operations, says Bryan. So he's president and runs testing. "I like long-term strategy, so I'm CEO and chairman," says Bryan.

The union seems blissful. Buoyed by a \$6 billion global market for clinical drug testing, Kendle topped *BUSINESS WEEK*'s list of Hot Growth companies. Revenues have expanded at a stunning annual pace of 168.9% over the past three years, to \$44.2 million in '97. Net income grew 158.8% annually, to \$3.7 million last year. And this people-intensive business, with low equipment costs, boasts a sky-high 59.3% annual average return on invested capital.

The granddaughter of a coal miner, Bryan, 51, never dreamed of such numbers 17 years ago, when she set up shop. Then the director of pharmacy at Children's Hospital of Philadelphia, she joined forces with Bergen, 49, a Whar-



ton School MBA and administrator at the hospital. Best friends, the pair had grown tired of office politics. Bryan took the lead, and 55% of the shares. Bergen got 45%. "Somebody has to make the decisions," she explains.

Bryan's idea was simple. Big drug-makers were increasingly farming out research to smaller labs. Kendle offered its services overseeing clinical drug development, testing human reactions to new drugs. This data, which

WILLPOWER

"When you get a plan and you stick to it, it's amazing what you can do," says Bryan

drug companies rely on for FDA approval has to be bullet-proof. Kendle quickly developed a reputation for reliability. "They do thousands of things right every day," says J. C. Bradford & Co. analyst Andrew L. May.

Bryan and Bergen were not yet married when they launched Kendle, but from the start the company was family-oriented. It

located downtown in Bryan's hometown, Cincinnati, so she could be close to her two sons from a previous marriage and pursue such interests as competitive rowing. Working together eventually led to romance. Ten years into the partnership, the pair married.

By the early '90s, Kendle faced exploding demand—and competition. Big drug companies, spooked by price pressures, outsourced rapidly to cut costs. But Kendle began losing business to

I DON'T CARE IF YOU INVEST
IN MICROCHIPS OR POTATO CHIPS.

I WANT MY FUND TO GROW.

It's pretty straightforward, really. No matter how sophisticated you are, most investors want the same thing. Growth. And true to its name, that's what Founders Growth Fund has delivered. While other fund companies may limit themselves to certain markets or sectors, we look one-by-one for companies with the potential for strong earnings growth, wherever they may be. This philosophy has helped Founders Growth Fund outperform the S&P 500 Index for the 5-, 10-, and 20-year periods that ended 3/31/98. If that's the kind of performance-oriented investing you want, call for a prospectus on our Growth Fund, and our other no-load growth, growth-and-income, international, and aggressive growth funds.

PERFORMANCE HISTORY:

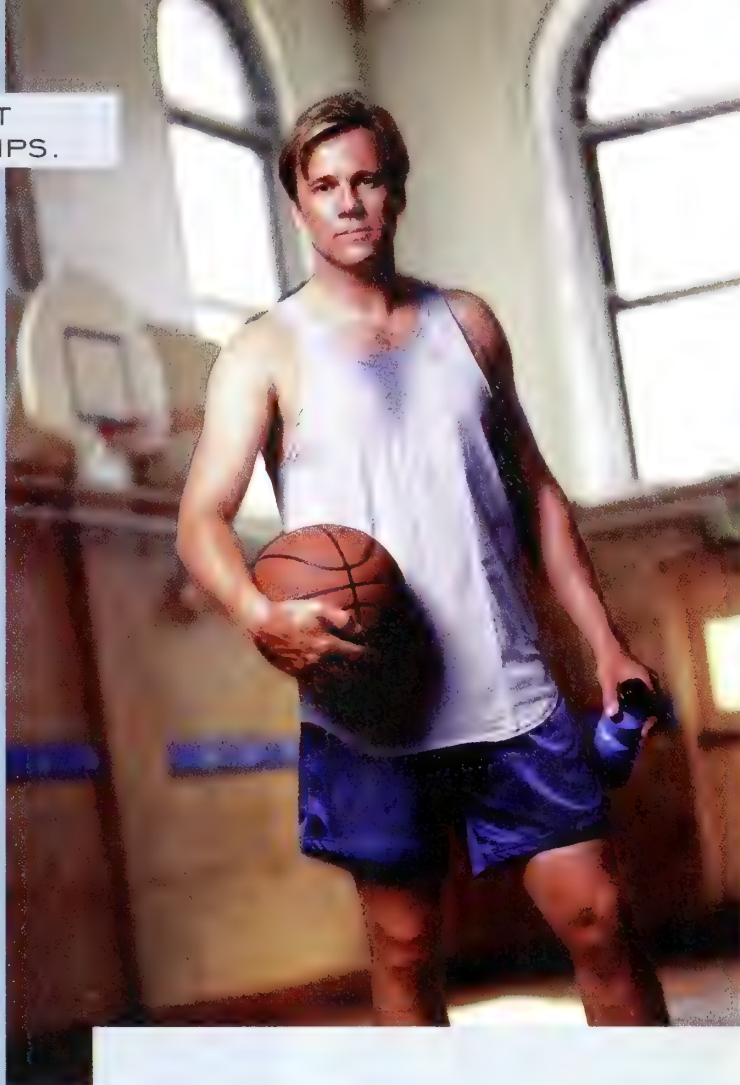
AVERAGE ANNUAL TOTAL RETURN AS OF 3/31/98

FOUNDERS GROWTH FUND

1 year	5 year	10 year	20 year
42.99%	22.84%	19.51%	19.00%

"A" RATED — THE WALL STREET JOURNAL

The Wall Street Journal awarded Founders Growth Fund its highest rating based on average annual total return among 328 and 201 growth funds reported by Lipper Analytical Services for the 5- and 8-year periods ended 3/31/98, respectively.



Founders Funds

GROWTH. PLAIN AND SIMPLE.

CALL FOR OUR FREE GUIDE ON FOUNDERS' APPROACH TO GROWTH-STOCK INVESTING OR VISIT OUR WEBSITE FOR MORE IN-DEPTH INFORMATION.

1-888-216-3100 Ext. 902 www.founders.com

Past performance is no guarantee of future results. Investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Please read the prospectus carefully before you invest or send money. It contains more complete information, including management fees and expenses. The Standard & Poor's (S&P) 500 Index is an unmanaged index of common stocks considered representative of the broad market. You cannot invest in this index. In The Wall Street Journal's 4/6/98 issue, an "A" rating reflected that the Fund was in the top 20% of all growth funds, as classified by Lipper Analytical Services. For the 1-year period ended 3/31/98, the Fund was in the top 60% of the 858 growth funds, and for the 10-year period ended 3/31/98, the Fund was in the top 20% of the 181 growth funds tracked by Lipper. Founders Funds, the Founders logo, and "Growth. Plain and Simple." are registered trademarks of Founders Asset Management LLC. © 1998 Founders Asset Management LLC, Broker-Dealer, Premier Mutual Fund Services, Inc., Distributor.

bigger-name rivals. "The marketplace was changing hugely," says Bryan. "It was either grow or sell."

Neither wanted to sell, but there was no plan for growth, either.

Special Report

HOT GROWTH COMPANIES

Bergen had no marketing background, and Bryan's scientific know-how couldn't help. So she enrolled in a crash program at Harvard business school, which she later persuaded

Bergen to attend. Afterward, they reorganized, with an emphasis on marketing. Realizing they needed to get bigger, they also set plans to go public to raise the capital to acquire other labs.

The changes appear to have paid off. Kendle went public last August, and its stock has since jumped from 16 to 25. Expansion is also well under way. They bought a Dutch lab and a German lab in 1997 and this February added their first U.S. acquisition: Acer/Exel, a New Jersey tester with operations in Asia too. "When you get

a plan and stick to it, it's amazing what you can do," says Bryan.

Kendle isn't yet among the biggest testing labs, but Wall Street thinks such moves will get it there. Analyst May sees sales nearly doubling this year, to \$84.5 million, with earnings growing 148%, to \$6.2 million.

Bryan and Bergen don't plan to stray far from Cincinnati or her 140 nearby kinfolk. But there is one trade-off to mixing business and family: "When I go home," says Bergen, "I can't exactly bitch about my boss."

By Peter Galuska in Cincinnati

BRASS EAGLE

GREAT BALLS TO FIRE

If you thought paintball was just for gun-crazy, camouflage-clad kids, think again. Wayne K. Loek, 43, a nurse anesthetist in Woodridge, Ill., has been playing it for four years. "If you play it right, there's a lot of strategy involved," he says of the sport, in which players chase each other around a field and shoot guns loaded with colorful, gel-filled balls. Adds Douglas J. McKeown, 48, a lawyer in Joliet, Ill., who plays with his two sons, daughter, and wife: "I would not hesitate to recommend it to anybody."

The growing mainstream appeal of a previously fringe sport helped propel Brass Eagle Inc., which markets the guns, accessories, and paintballs that players use to blast each other, to No. 39 on the BUSINESS WEEK Hot Growth list. Since splitting from air-gun maker Daisy Manufacturing Co. last year, the Rogers (Ark.) company has become the key player in the \$250 million industry. Thanks to Daisy's established retail ties, Brass Eagle has been the only paintball equipment maker to crack such mass merchants as Wal-Mart Stores Inc. and Kmart Corp. By yearend, its stuff will be sold in 3,500 such outlets, as well as major sporting goods chains.

That's all the more impressive since Brass Eagle is new to the party. Recreational paintball has been around for some 15 years, and Daisy had made paintball guns to mark trees and cattle for commercial purposes starting in the 1970s. But it didn't get serious about tapping the sports market until 1993. When market research showed the game's potential, Daisy linked up with tiny Canadian paintball company Brass Eagle through a royal-



ty arrangement. In 1995, it bought the company's name, patents, and other assets. Then, to help finance its growth, Brass Eagle became a separate, publicly traded company last November. Its stock opened at 11 a share; it now trades at about 16.

By applying Daisy's expertise in high-volume manufacturing, Brass Eagle made cheaper paintball guns, with retail prices starting around \$35. A popular semi-automatic sells for about \$100, vs. \$250 for similar guns several years ago. "It's a new product category. It has tremendous potential," says E. Lynn Scott, 44, Brass Eagle's CEO.

Scott, a Mississippi native who began his career as a Kmart management trainee, was Daisy's vice-president for marketing and sales when Daisy and Eagle split. He has had no qualms about leaving well-established Daisy for Brass Eagle. "We started with basically nothing," he says. "It's an opportunity to participate in literal-

GUN CRAZY

Scott has cracked megastores such as Wal-Mart and Kmart as paintball grows in popularity.

ly building a business." With his increased marketing efforts, which have led to paintball coverage on ESPN and MTV, the company's sales for the past three years have grown at an annual rate of 147%, to \$3 million in 1997. Profits leaped at a 341.5% annual rate during that time, to \$3.6 million.

But Brass Eagle's dependence on one sport raises the

question: Is growth sustainable? John P. Hughes of Dain Rauscher Wessels, a division of brokerage Dain Rauscher in Minneapolis, which co-managed Brass Eagle's initial public offering, sees revenue growth slowing to 44% this year, and profit growth to 78%. "Like any extreme sport, [paintball] could go in or out of favor," he says.

Scott, who predicts Brass Eagle can grow at least as fast as the industry's estimated 25% rate for the next few years, sees plenty of untapped territory. He's trying to expand in international markets, which accounted for 5.2% of 1997 revenues, particularly in Europe and South America. He also aims to expand the sport's appeal by marketing a paintball-field setup that can be used in amusement centers, carnivals, and other urban settings. Down the road, he doesn't rule out diversifying. But for now, chasing this market is enough of a thrill.

By Wendy Zellner in Rogers, Ar.



"Cassie? Just exactly how much is my per diem?"

—Dexter Fedor, Field Sales Manager

Predictable monthly bills. Clear wireless calls.

Every big business struggles to keep costs predictable in an unpredictable world. So in addition to 100% digital call clarity, Sprint PCS has Flexible Business Plans and two new calling features designed to keep costs manageable. Home Rate USASM, included for no extra charge, eliminates roaming charges anytime, anywhere, on our nationwide network. And Toll-Free USASM, which gives you 1,000 minutes of clear wireless long-distance calls for an additional \$9.99 a month. To anywhere in the U.S. Anytime. Sprint PCS. The clear alternative to cellular.



1-888-509-6462 • www.sprintpcs.com/clear

Sprint PCSSM

Sprint PCS Home Rate USASM and Toll-Free USASM may not be used in conjunction with certain other promotions or rate plans. Subject to business credit approval and worldwide wireless service. Home Rate USASM and Toll-Free USASM do not apply when roaming off the Sprint PCS Network. Under Toll-Free USASM, long distance minutes in excess of 1,000 (100 minutes for Southern California and Nevada subscribers) will be billed at \$.10 a minute. Toll-Free USASM may be combined with Weekend or Off-Peak Option but will be billed at \$.10 a minute. See Business Buyer's Guide materials for complete restrictions and limitations. ©1998 Sprint Spectrum L.P. All rights reserved. Sprint, Sprint PCS, Sprint Personal Communication Services and the diamond logo are trademarks of Sprint Communications Company L.P., used under license.

A BEST FRIEND TO TELEMARKETERS

Aleksander Szlam hates it when his family's dinner is interrupted by telemarketers. That, says Melita International Corp.'s CEO, is why he invented software that tells callers when to get in touch with customers and the best way to do it. Melita's software dials a number at the preferred time, or prepares a letter, or even sends an E-mail message. "We've been working overtime to give the customer the upper hand," Szlam says.

Of course, for some junk-weary consumers, no call is a good call. But the success of Melita's new Magellan software is indisputable. Telemarketers



ing agents and managing the calls' pace.

His new Magellan software takes telemarketing a step further. It is based on consumer profiles packed with information the company buys from other databases. Much of the data come from customers through surveys. When called for the first time, they are asked questions such as when it is most convenient to talk, or what language they prefer. Magellan then matches customers with telemarketers. Calls to Spanish-language customers, for example, are automatically routed to Spanish-speaking operators.

An energetic executive who often dons brightly colored suits, Szlam emigrated from Poland at 19. He took up with a pop band and became interested in musical electronics. With encouragement from professors at Georgia Institute of Technology, he majored in electrical engineering. On graduation, Szlam went to work designing communications networks and software. By the late 1970s he was an engineer at Lockheed Corp., but he knew he wanted to set out on his own. Toiling nights and weekends in his garage,

GRAND SZLAM

Melita's CEO has a system that does a better job of linking telemarketers with consumers

he designed one of the first multi-line automatic dialing systems.

Szlam and his brother-in-law formed the company to sell the systems

in 1983. They sold early versions to schools, which used the technology to track down truants' parents. The technology is now in 600 telecom systems, mostly with retail and credit-card companies that use them to track and collect delinquent accounts. Today, though, Melita's new direct-marketing software provides most of the growth.

Industry analysts applaud a distribution agreement Melita recently signed to have Williams Communications Solutions, a \$1.5 billion equipment provider, sell Melita products. "Melita has a good combination of advanced software solutions and strong distribution partners," says Donald H. Newman of Ladenburg Thalmann & Co. in New York. He sees revenues jumping a further 32% this year.

Meanwhile, Szlam is working on software to assemble multiple call centers with hundreds of phone lines to create one huge virtual center. Then, telemarketers could work from home. Szlam may never make telemarketers lovable. But for his company, the quest so far has been lucrative.

By Nicole Harris in Atlanta

Special Report

HOT GROWTH COMPANIES

clamor for the product, which helps them target calls—and reduces hang-ups. The payoff for Melita: average annual earnings growth of 58.2% over the past three years and a high 49.8% return on invested capital, which landed the Norcross (Ga.) company the No. 26 spot on the Hot Growth list.

BUSY FINGERS. Melita is riding a surge in demand for telemarketing services—and hardware and software for them. Szlam, 46, has over 40 patents covering most of the technology found in call centers. His specialty: "outbound" systems that continuously dial from a list of numbers, feeding calls to telemarket-

ARIS

A SOFTWARE TUNER AND COACH

The ascent of network PCs, the Internet, and Year 2000 terrors have brought headaches, confusion, and huge expense to companies around the world. But for Paul Song, chairman and CEO of software consultants ARIS Corp., such problems are the stuff profits are made from.

ARIS' specialty is making the latest software from Microsoft Corp. and others easy for companies to use. It must be good at it. Although the Bellevue (Wash.)-based company com-



HAND-HOLDING Song's winning formula: Aris gets software up and running, then offers training

petes head-to-head with giants like Andersen Consulting, revenues have soared 96.8% annually over the past three years, and reached \$55 million in 1997. Earnings

have raced ahead at a 75.1% annual clip, and hit \$5.3 million in 1997. That makes ARIS No. 41 on BUSINESS WEEK's Hot Growth list.

It has been a fast rise for Song, 35, the son of Korean immigrants. Having completed a master's in computer science from MIT, he was working as a software consultant at Oracle Corp. in 1990. But fears of management turmoil, and a longing to strike out on his own, persuaded Song to launch ARIS.

At the time, Song had just \$1,000 in



The new, faster Lexmark Optra S Printers: Track down new savings on your company's printing.



With the new 1998 Lexmark Optra™ S laser printers, real savings are right under your nose. Four new models with processors that run up to three times faster. So you get crisp 1,200 dpi printouts without wasting time. And that's just the beginning.

Exclusive Optra S features also save you on toner, paper and power. Interchangeable accessories, such as cartridges and paper trays, keep you from having to stockpile supplies. Network compatibility makes it a snap to hook up and run. And with four models between 12 and 24 ppm, you pay only for the speed you need.

To greatly reduce your printing costs, follow the breed that's leading the way. Lexmark. To learn more, call 1-800-LEXMARK (1-800-539-6275) or stop by www.lexmark.com.

A **bolder** new breed of performance printers.

**PRINT
LEXMARK**

PC
MAGAZINE
EDITORS'
CHOICE

June 10, 1997
Lexmark Optra S 1250
Lexmark Optra S 1650

You really know a bank when you know its financial results.

95%

market share of Crédit Communal de Belgique in
Belgian public sector financing.

55,8%

operating efficiency ratio, a record and one of the lowest in
the banking business in Europe.

1,233

million euros - operating expenses in 1997
The 0.7% decrease from 1996
reflected effective cost control.

732.7

billion Belgian francs - total assets under manage-
ment in 1997, up 23.3% from 1996.

542

million euros - net income in 1997.
Net income increased by 11.5% in French francs and by
12.9% in Belgian francs.

CAC 40

stock market index - Dexia France is one of the forty leading
stocks on the Paris Stock Exchange.

48.9

French francs - net income per share
of Dexia France in 1997.

2,207

million euros - net banking income in 1997.

BEL20

stock market index - Dexia Belgium is one of the twenty leading
stocks on the Brussels Stock Exchange.

974

million euros - operating income before allowances
in 1997, up 5.9% in French francs
and 7.2% in Belgian francs from 1996.

113.5

billion French francs - new public
finance loans in 1997, representing a market share in
Europe of more than 10%.

7,150

million French francs - outstanding international structured financing
commitments at the end of 1997.



Dexia, the European banking group
created by the merger of Crédit
France and Crédit Communal de Belgique,
reported total assets of 185 billion euros.

14

Dexia has subsidiaries and affiliates in
14 European countries.

294,2

dividend distribution rate of Dexia Belgium in 1997.

47.8

billion French francs - total bond issues by Crédit local de France
in 16 different currencies in 1997.

185,000

million euros - total assets in 1997,
ranking Dexia among the top 25 European banks.

14.5%

solvency ratio (Tier I and Tier II capital).

441

billion Belgian francs - total loans to individual customers
small companies and the self-employed at the end of 1997,
up 22.3% from 1996.

1,837.4

billion French francs - total individual client investment products
(deposits and savings bonds).

6

million euros - shareholders equity in 1997
re allocation, including minority interests and
general banking risks reserve).

42%

market share of Crédit local de France in the French
local government financing sector.

1,071.70

billion Belgian francs - total investment funds under management,
up 47.2% from 1996.

147

ch francs - outstanding international
commitments at the end of 1997.

11,000

employees work for the group.

660,8

billion French francs/4,074.0 billion Belgian francs -
total outstanding client loans at the end of 1997,
representing 50% of the groups assets.

55.2

billion French francs - stock market capitalization of
the Dexia Group as of December 31, 1997.

1,000

billion French francs - public service
financing needs in Europe.

950

branches of Crédit Communal de Belgique
to serve individual banking customers.



453

billion French francs - total client
deposits at the end of 1997.

18%

return on equity in 1997. This rate includes
the non-recurring capital gains from the sale of the equity
interest in Banque Bruxelles Lambert.

1st

European banking group in the financing
of public service facilities.

130

Belgian francs - dividend per share for 1997 proposed
to the shareholders of Dexia Belgium at the Annual Shareholders
Meeting on May 13, 1998, up 11% from 1996.

of 1997. Dexia is the European
the financing of public service
and is also active in commercial
and asset management.

160%

growth in life insurance premiums in 1997,
representing an increase in line with the groups
bancassurance strategy.

36,4%

dividend distribution rate of Dexia France in 1997.

AA+/Aa1

ratings of Crédit local de France and
Crédit Communal de Belgique by Standard and Poor's and Moody's.

39

is the average age of group employees.

17.3

French francs - dividend per share
(excluding the tax credit) for 1997 proposed to the
shareholders of Dexia France at the Annual Shareholders
Meeting on May 19, 1998, up 10.2% from 1996.

48

ions and agencies of Crédit local de France
throughout France to serve local governments.

+10%

increase in dividend for Dexia France shareholders
who have held nominative shares for two full years and kept them
in this form until the date the dividend is paid.

0,3%

solvency ratio - Tier I capital.



Crédit Communal

savings and an answering machine. But that didn't stop him from bidding on a project to help timber giant Weyerhaeuser Co. implement an extensive computer system that would track information from the mills to its box plants. Competition was stiff, and included EDS and Oracle, Song says. Ini-

Special Report

HOT GROWTH COMPANIES

tially Weyerhaeuser thought ARIS too small. Song countered that if he were still at Oracle, he would be heading up the project. "What, did I just get dumb because I left Oracle?" Song demanded.

BIG WINS. The blunt talk won him the job. To complete the three-year project, Song persuaded his wife and college sweetheart, Tina, to also quit her engineering job at Oracle. His brother John came in to handle finances and billing.

Today, Tina heads human resources and internal computer systems at the 600-person company, while John runs training programs for U.S. clients.

Song logged big wins at Boeing, the IRS, and Lockheed Martin. Today ARIS even trains Microsoft's marketing staff on its own Exchange E-mail program. Result: Analyst Wayne Segal of DMG Technology Group expects ARIS to hike revenues 64%, to \$90 million in 1998. Profits should rise 36%, to \$7.2 million.

The key to success, says Song, is cross-selling. In 1993, he realized that while ARIS was often hired to help a company fine tune its software, good money could be made offering training once the software was up and running. By 1997, 39% of ARIS' revenues came from these classes. "One business feeds the other," says Rob Owen, an analyst with Pacific Crest Securities.

To boost revenue, ARIS is spending heavily on its own information sys-

tems. Classroom enrollment is maximized by a yield management system similar to one used by airlines to fill their seats. But ARIS still faces a big challenge: attracting and keeping the skilled software engineers and teachers it needs. One reason ARIS went public last summer was to be able to offer stock options to its employees.

The IPO raised \$31 million, money that now fuels expansion. The stock has risen 43% to 31, and ARIS has acquired four rivals and doubled its U.S. offices. It recently bought two consulting and training outfits in Britain.

Analysts say those buys look smart so far. More offices in Europe and the U.S. are likely. "We want to be the No. 1 player," says Song, who with his wife now owns 45% of the company. Given his track record capitalizing on change, the opportunities look vast.

*By Seanna Browde
in Bellevue, Wash.*

DOVER DOWNS ENTERTAINMENT

SPEED DEMON

Dover Downs Entertainment Inc. wasn't exactly fast out of the gate. The privately held company opened its horse-and-motor racetrack in Dover, Del., back in 1969. But sports fans in the mid-Atlantic region weren't clamoring for auto racing back then. And within a few years, the energy crisis hit, curtailing visits from many out-of-staters. "It was a tough go," recalls Dover CEO Denis McGlynn, who joined the company's promotion department in 1972.

These days, however, Dover is setting land speed records. Thanks to the booming gaming and motor-sports business at its Dover Downs complex, it has racked up average annual revenue and earnings growth of 99.8% and 70.9%, respectively, over the past three years. Along with a 31.6% return on invested capital, that was enough to earn Dover the No. 20 spot on the BUSINESS WEEK Hot Growth list. And since going public in October, 1996, at 17 a share, the stock has soared 85%. "They've evolved from an undervalued little company into a real growth story," says Kevin C. Holt, a research analyst at Strong Capital Management Inc., which holds nearly 130,000 Dover shares.

Dover Downs, founded by private investors including trucking titan John W. Rollins Sr., can thank the state of Delaware for some of its good fortune.



In 1994, the state passed a law allowing its horse-racing tracks to put in slot machines. That law—which Rollins, a former Delaware lieutenant governor, actively supported—was a boon to Dover Downs. The company's gaming revenues jumped from less than \$1 million in 1994 to \$81 million in the fiscal year ended last June. And there's no sign the party will end: In March, Delaware passed a law doubling, to 2,000, the number of slot machines permitted at any one location.

REVVED UP

McGlynn is using revenues from gambling to help expand Dover's racetrack business

While he is overseeing breakneck growth at Dover Downs, McGlynn himself doesn't race cars or horses. A former lieutenant in the Air Force, he wasn't even a fly-boy. Instead, he spent three years overseeing the maintenance of cargo planes. McGlynn came to Dover Downs on the recommendation of a retired lieutenant colonel and was promoted to president in 1979. He became CEO in 1996. The 81-

year-old Rollins, who serves as chairman of the board, still holds 39% of the company's shares, with family members holding a further 17.5%. He also remains heavily involved in deal-making, advertising, and setting promotions strategy with McGlynn, whom he speaks with seven days a week.

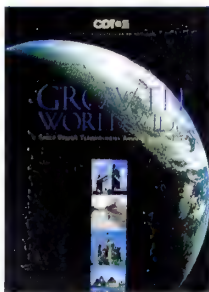
McGlynn, a sports buff—he played basketball and baseball in his youth—says he can't believe his luck in building a career in the sports business. "Coming to the office has never been like going

The 1998 Annual Report Directory

In today's complex economic environment, and with political uncertainty in many parts of the world...making intelligent investment decisions is not easy. Nothing tells a company's 'story' better than their annual report. The following companies in this BUSINESS WEEK Annual Report Directory are leaders in their respective industries. Each has an exciting story to tell potential investors.

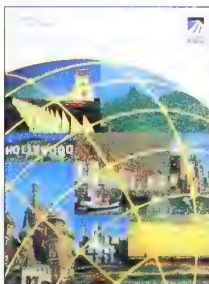
BUSINESS WEEK's electronic reader service system allows you to choose which annual reports you would like to receive quickly, easily and free of charge. It also provides a link to company websites. Or simply call the 800 number listed to request reports by telephone. See the last page for details.

Cable Design Technologies



Cable Design Technologies Corporation (NYSE: CDT) is a leading manufacturer of technologically advanced electronic data transmission cables for network, communications, specialty electronics, and automation and process control applications, including complete voice and data wiring solutions, fiber optic connective solutions and other components required to build high performance telecommunications infrastructures. In fiscal 1997, sales climbed 45% and net income rose 36%.

Scientific-Atlanta, Inc.



Scientific-Atlanta's commitment to new innovation and intensive R&D helps people connect with entertainment, information and each other. Cable operators, broadcasters, telephone and utility companies, governments and corporations worldwide rely on our advanced terrestrial and satellite networks to deliver valuable analog and digital voice, data and video services. (NYSE:SFA) (<http://www.sciatl.com>)

Wang Global



Wang Global has reinvented itself in the mid 90's, to become one of the predominant leaders in the fast-growing networked technology services industry. Today Wang Global has grown to become an over \$3 billion network and desktop services and solutions provider, with over 20,000 employees in 40 countries. Wang Global helps companies plan, deploy, manage and maintain their network and desktop infrastructure.

Southern Company



Our future ain't what it used to be... it's much better! That's because our traditional business is strong, our international business is growing, and opportunities outside our traditional business are emerging. We're America's largest generator of low-cost electricity with facilities and operations reaching from the southeastern U.S. to Europe, Asia and South America.

Southern Company... Energy to Serve Your World.

NYSE: SO

www.southernco.com

Central and South West Corporation



Central and South West Corporation

Central and South West Corporation is emerging to seize the expanding opportunities of an increasingly competitive electric power industry. Learn about CSW's advanced thinking... its global reach... its growing telecommunications and energy management services... and its commitment to be a customer-focused, market-oriented business. To learn about PowerShare, CSW's direct stock purchase program, call 800-527-5797, or e-mail invest@csw.com.

NOVA Corporation



In energy services NOVA operates a natural gas transmission system and a global energy services company.

NOVA Chemicals produces

ethylene/polyethylene and styrene/polystyrene and owns 27% of Methanex and 26% of NGC.

NOVA and TransCanada PipeLines announced their intention to merge creating North America's fourth largest energy services company. Concurrently, NOVA Chemicals will be launched as an independent, publicly traded company.

Agouron Pharmaceuticals, Inc.



Agouron's mission: to provide innovative drug therapies for people with some of the most difficult diseases of our time. At the company's core is a dynamic technology that allows for the design of novel drugs that inactivate proteins that play key roles in cancer, AIDS and other serious diseases. Visit Agouron's web site at <http://www.agouron.com>. (Nasdaq: AGPH)

Sears, Roebuck and Co.



Over the past five years, Sears has transformed itself into an exciting, focused and growing retail company by investing \$4 billion to renovate stores, adding more than 12 million square feet devoted to apparel, expanding its \$3 billion home services business and revamping its automotive business to extend the company's leadership in tires and batteries. Sears 1997 revenues increased 8 percent to \$41.3 billion, while its network grew to include 833 full-line stores and more than 2,600 specialty stores. Sears, which

also is the nation's number one credit provider among retailers, serves more than 60 million households.

Saint-Gobain



Saint-Gobain, one of the top 100 industrial companies in the world, is a leader in each of its businesses — flat glass, glass containers, insulation, reinforcements, building materials, ductile iron pipe, abrasives, industrial ceramics and building materials distribution.

The company employs approximately 110,000 people in more than 40 countries. Its 1997 sales exceeded \$18 billion.

Saint-Gobain's stock is traded on all major European exchanges.

(<http://www.saint-gobain.com/anglais>)

VEBA



VEBA, the world's largest utility-based multi-business group, is active in the fields of electricity, chemicals, oil, distribution/logistics, real-estate management and telecommunications. Our decentralized management structure allows for fast and flexible response to global market opportunities as they arise, and our 1997 results underscore this approach: 129,960 employees worldwide achieved record group income of DM 2.8 billion (1996: DM 2.5 billion); earnings per share rose by 11% to DM 5.58, and the dividend increased from DM 1.90 to DM 2.10. With our Focus and Growth Strategy, VEBA

has established a stronger platform for further enhancing the value of our Company for all our shareowners the world over.

Norfolk Southern Corporation



In the past five years, Norfolk Southern Corporation, which owns an Eastern freight railroad and a natural resources company, has increased diluted earnings per share by 68%, net income by 48%, income from railway operations by 31% and return on equity by 17%.* NS is currently seeking federal approval to operate a large portion of the routes and assets of rail carrier Conrail to extend NS' market reach into the Northeast.

*Excluding special items, and Conrail-related items in 1997

Fannie Mae



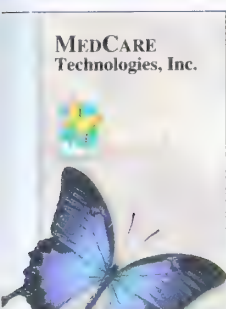
Fannie Mae is one of nine companies in the S&P 500 to achieve double-digit growth in operating earnings per common share in each of the past eleven years. The company increases homeownership by buying residential mortgages from lenders across the country, enabling them to lend to more borrowers. Visit www.fanniemae.com or call 1-800-501-4150.

Cleco Corporation



Cleco Corporation provides electric services to approximately 238,000 customers in Louisiana. Cleco is engaged principally in the generation, transmission, distribution and sale of electricity. Through a subsidiary, the Company also markets energy and energy management services and engages in energy asset development opportunities in the southeast region of the United States. Cleco's electricity prices are very competitive on a national, regional and statewide basis. Cleco earned \$2.24 per share in 1997, reached a new all-time high, and paid dividends of \$1.57 per share.

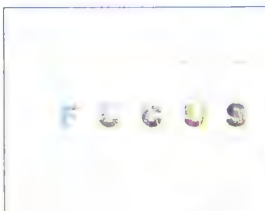
MedCare Technologies, Inc.



MedCare Technologies (Symbol: MCAR) has developed a non-drug, non-surgical treatment for urinary incontinence. MedCare's proprietary program is completely risk free, covered by most health insurance plans (including Medicare), does not require FDA approval, and has a proven success rate in excess of 87%.

For more information, please call 800-611-3388 or visit our website at medcareonline.com

Catellus Development Corporation



Catellus Development Corporation is one of the nation's premier diversified real estate operating companies with one of the largest portfolios of developable land in the western United States. Catellus' strategic land portfolio has a development potential of over 49.1 million square feet of new commercial development, an estimated 17,100 residential units, and over 18 million square feet of incoming-producing buildings.

For Free Information Log On To...

BizLink

www.businessweek.com/BizLink/

With BizLink, you can request a copy of any annual report in this directory via the internet, as well as link directly to company websites. Or simply call 1-800-848-6708 to request more information by phone. Companies are listed in the **June 1, 1998** issue under Annual Reports.

Man Sang Holdings, Inc.



Headquartered in Hong Kong for over 15 years, Man Sang Group (OTC BB:MSHI) is one of the world's largest purchasers and processors of Chinese cultured pearls. It operates its processing facilities in its own industrial city of 523,532 sq. ft. in Shenzhen, PRC. The Group provides a wide range of pearl products to over 600 manufacturers and merchandisers worldwide. (<http://www.man-sang.com>) Investor Relations can be reached at 800-626-0993.

- | | |
|------------------------------------|-------------------------------|
| 101. Agouron Pharmaceuticals, Inc. | 109. Norfolk Southern Corp. |
| 102. Cable Design Technologies | 110. NOVA Corporation |
| 103. Catellus Development Corp. | 111. Saint-Gobain |
| 104. Central and South West Corp. | 112. Scientific-Atlanta, Inc. |
| 105. Cleco Corporation | 113. Sears, Roebuck and Co. |
| 106. Fannie Mae | 114. Southern Company |
| 107. Man Sang Holdings, Inc. | 115. VFBA |
| 108. MedCare Technologies, Inc. | 116. Wang Global |

Plan now to be part of the next directory. Call 1-800-424-3090.

to work for me," he says. "It was always something I couldn't wait to do."

Now, McGlynn is using cash flow from gaming to fund an aggressive expansion. Last fall, Dover agreed to buy

Special Report

HOT GROWTH COMPANIES

auto track operator Nashville Speedway USA for \$3 million. With Gaylord Entertainment Co., it is building a \$40 million racing complex outside Nashville. And in March, Dover struck a

deal to merge with Grand Prix Association of Long Beach, which runs the popular road race in Long Beach, Calif., and owns tracks in St. Louis and Memphis. Those deals give Dover a coast-to-coast presence, vaulting it into the auto racing big leagues. Today, it's nipping at the heels of better-known operators such as International Speedway Corp. and Penske Motorsports Inc. "We are keeping our eye open for other opportunities," says McGlynn.

There are plenty of potential roadblocks, however. For one thing, neighboring Maryland and Pennsylvania

may allow gambling. If that happens, Dover's Delaware operations, which gets about 40% of its gaming traffic from those states, could take a big hit. That's one reason McGlynn wants to pump money back into the Dover site in hopes of making it a full-scale entertainment complex. One idea being considered: building a hotel at the raceway. "We want to make Dover Downs a destination, not just a day trip," says McGlynn. If he can make that happen, maybe Dover Downs can keep up its torrid pace.

By Amy Barrett in Philadelphia

APEX PC SOLUTIONS

SERVING THE SERVERS

A children's book called *Something From Nothing* by Phoebe Gilman is proudly displayed in Kevin J. Hafer's spartan office. The tale of how a family of mice forged a feast from table crumbs is akin to Hafer's own story. Now CEO of Apex PC Solutions Inc., he built the company from the scraps of a computer-service business, turning it into a successful hardware manufacturer that has grown fat on the red-hot market for PC servers.

Simply put, Apex eliminates clutter that has built up as corporate computer networks grow larger and more complex. Its switching equipment allows information from multiple servers—the powerful PCs that control networks of individual computers—to be displayed on one screen. This means the servers can also be stacked in cabinets—low-tech equipment Apex also sells. Today, manufacturers such as Compaq, Hewlett-Packard, Dell, and IBM offer Apex equipment to networked customers.

Partnering with such prime manufacturers helped Apex reach No. 4 on *BUSINESS WEEK's* Hot Growth list. Over the last three years, its revenues have soared an average 93.7% annually, to hit \$55.4 million in 1997. At the same time, earnings have more than doubled on average, to \$10.5 million. Even more impressive, the company—based in Woodinville, Wash., a suburb east of Seattle—returned an average 57.1% on its invested capital.

Hafer, 41, a high school graduate, learned electronics while working on a U.S. Navy destroyer. He then parlayed the experience into gigs as a computer technician, working as a manager at electronics giant Harris Corp. for 10 years. In 1990, he landed



a job as general manager at Apex Computer, a computer services company. While maintaining servers at Microsoft Corp. for Apex, Hafer foresaw the need for a more efficient way to manage the machines. Microsoft employees were running from server to server to administer the giant's own internal network. Hafer figured he could find a way to hook them all up to one monitor and keyboard. In 1992, he persuaded Sterling Crum, his boss and Apex' owner, to fund a spin-off that would go after this network-management niche. **TIGHT SHIP.** Hafer assembled a small team of engineers to design the software that enabled one machine to monitor several servers. With only 12 employees its first year, Apex PC Solutions rang up \$1 million in sales—including a contract with Microsoft. "This was a bootstrap company," Hafer says.

There are now 72 workers, but the ex-Navy man still runs a tight ship. To trim costs, manufacturing is outsourced to smaller companies around Puget Sound. Apex focuses on assembly, testing, and design. Most sales are closed by fax and phone. And to keep major computer makers happy, Hafer is ob-

ALL FOR ONE

Hafer's system lets data coming in from any number of servers show up on a single screen

sessed with filling orders promptly. "Kevin has a fanatical belief in customer service and knows every detail of the business," says Jeffrey T. Chambers, an Apex board member and managing director of TA Associates, a private equity fund that bought half of

Apex PC Solutions in 1995.

That has clearly paid off. Today, Apex has captured 41% of a market that's growing at a rate of 35% a year, according to International Data Corp., a research firm in Framingham, Mass. Sales should nearly double again this year, analysts say, to \$106 million, while earnings are expected to rise 50%, to about \$15 million.

Hafer already is staking out new territory. While Apex dominates sales to companies shipping new servers, it has barely touched the jumble of server networks already out in the field. "Imagine what we can do in a market that has been virtually untouched," Hafer says. Hafer also wants to invade the European market—and recently raised the cash to do so. The company has \$51 million in working capital and no debt, thanks to its February, 1997, initial public offering and a second offering a few months later. The stock went public at 9½ a share and trades today around 27. Once content to collect scraps left by others, Apex now anticipates a feast of its own.

By Seanna Browder
in Woodinville, Wash.

Wouldn't it be nice if your work was *impossible* to ignore?



Standing out can be hard work. Making it happen in business is even harder. Unless you have Adobe® software. Suddenly, ordinary communication will have more impact. Capture attention. Get results. All with the help of Adobe Photoshop®, Illustrator®, PageMaker®, and PostScript®. See for yourself, today, with our free product sampler CD. Call 1 888 724-4503 ext. 42801. Or visit www.adobe.com/unforgettable.

Suddenly, you're unforgettable.

WHAT'S STILL SIZZLING—AND WHAT MELTED

Two years ago, Parlux Fragrances Inc. exuded the sweet smell of success. The perfume maker had turned in double-digit profit increases throughout the 1990s, fueled by its Perry Ellis line. Under the leadership of Ilia Lekach, a Russian immigrant who began his

Special Report

HOT GROWTH COMPANIES

American business career selling watches, Parlux garnered \$8 million in earnings on \$68 million in sales for the year ended March, 1996. That was enough to land the company in the No. 32 spot on BUSINESS WEEK's 1996 Hot Growth list.

Since then, though, Parlux' performance has been stinko. After losing \$6.7 million for the fiscal year ended Mar. 30, 1997, it expects to report red ink for the 1998 year, too. The stock is down 81%, to 2%, as of Apr. 30. Lekach, whose family owns about 15% of Parlux, admits it "suffered from a series of mistakes."

One problem was Parlux' mid-1996 launch of Perry Ellis America, the latest in the Ellis line. The fragrance, named after the clothing designer who died in 1986, couldn't compete with a similar product that appeared at the same time—Tommy, from the very much alive and in-vogue designer Tommy Hilfiger. Lekach says Parlux' woes are history and predicts a comeback this year.

WRONG WAY. Parlux' sorry situation is a cautionary tale that shows just how quickly a hotshot small company can fizzle. If Wall Street's lofty earnings expectations are dashed, the outcome is often bloody. Indeed, the losers on our 1996 list outnumbered the winners 3 to 2. Dragged down by a large number of high-tech and health-sciences companies that got slammed in those

fast-changing fields, the class of 1996 managed a cumulative total return of only 2.6%. That compares with a 38% rise for the small-cap Russell 2000 index over that period. The large-cap Standard & Poor's Industrials returned an even better 71%.

The worst performer was Lafayette Industries Inc., whose stock plummeted 99.9%, to 0.5¢. Why? The onetime maker of display cabinets for stores moved into such things as debit-card vending machines, but the shift did not work out. Lafayette hasn't filed 1997 results, and the 1996 filings had sparse financial information. In March, 1997, NASDAQ delisted the stock from its Small-Cap Market. Attempts to reach the company were unsuccessful.

Another casualty is Netmanage Inc., whose lead-

ing-edge software allowed desktop PCs to access the Internet when it ranked No. 44 on our list two years ago. An ocean of red ink followed as Microsoft Corp.'s popular Windows 95, which bundles in the same Net feature, gobbled up Netmanage's business. So Netmanage is switching gears, with a product that lets employees with Windows view data on their company's IBM mainframe.

GLOVES AND CHIPS. Of course, the '96 roster also had highfliers that kept soaring. At the top of the class: Safeskin Corp., which sells latex gloves to medical professionals. Thanks to concerns about the transmission of AIDS and other contagious diseases, sales have soared. The stock, too, has taken flight, surging 387%, to about 36.

Not far behind was Micrel Inc., with a 362% gain. The San Jose (Calif.) maker of analog integrated circuits for cellular phones and PCs showed great agility as it sidestepped the meltdown in South Korea and elsewhere in Asia. Micrel, which had relied on Asia for close to 40% of sales, recognized the threat early, when December orders from the region fell short. So CEO Raymond D. Zinn ramped up other lines, particularly its foundry business, which manufactures other companies' products in Micrel's U.S. factories. The quick reaction kept the damage down. "Nobody moved as fast as we did," he says.

Zinn also acted swiftly to protect Micrel's stock, offering an early warning to Wall Street of its Asian troubles. "They kept the Street tuned in," says Mark F. Fitzgerald, a Merrill Lynch & Co. analyst. Employees control half Micrel's shares, so sensitivity to investors comes naturally to Zinn. He personally owns 15% of the company.

Despite the troubles, Micrel's last two quarters proved its best ever. Such prowess keeps Wall Street happy, and buoys faith that small caps can be gold mines.

THE 1996 WINNERS...

TWO-YEAR TOTAL RETURN*

SAFESKIN	387.2%
MICREL	361.8
INNOVEX	268.3
APPLIED VOICE TECHNOLOGY	239.4
CIBER	227.0
VERITAS SOFTWARE	171.5
COHERENT COMMUNICATIONS	155.5
GENERAL EMPLOYMENT ENT.	154.9
CAMBRIDGE TECH. PARTNERS	133.1
CUTTER & BUCK	120.8

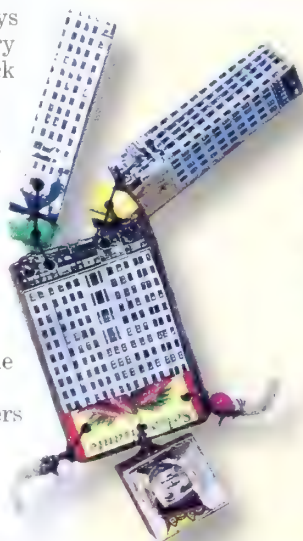
...AND THE LOSERS

TWO-YEAR TOTAL RETURN*

LAFAYETTE INDUSTRIES	-99.9%
GLOBAL VILLAGE COMM.	-94.0
ASTEA INTERNATIONAL	-89.8
EUPHONIX	-83.3
PARLUX FRAGRANCES	-81.1
FIRST TEAM SPORTS	-80.3
NETMANAGE	-76.3
APAC TELESERVICES	-75.5
MOVIE GALLERY	-73.8
ESS TECHNOLOGY	-72.1

*Calculated on the basis of stock price as of Apr. 30; excludes companies no longer trading

DATA STANDARD & POOR'S COMPUSTAT, A DIVISION OF THE MCGRAW HILL COMPANIES

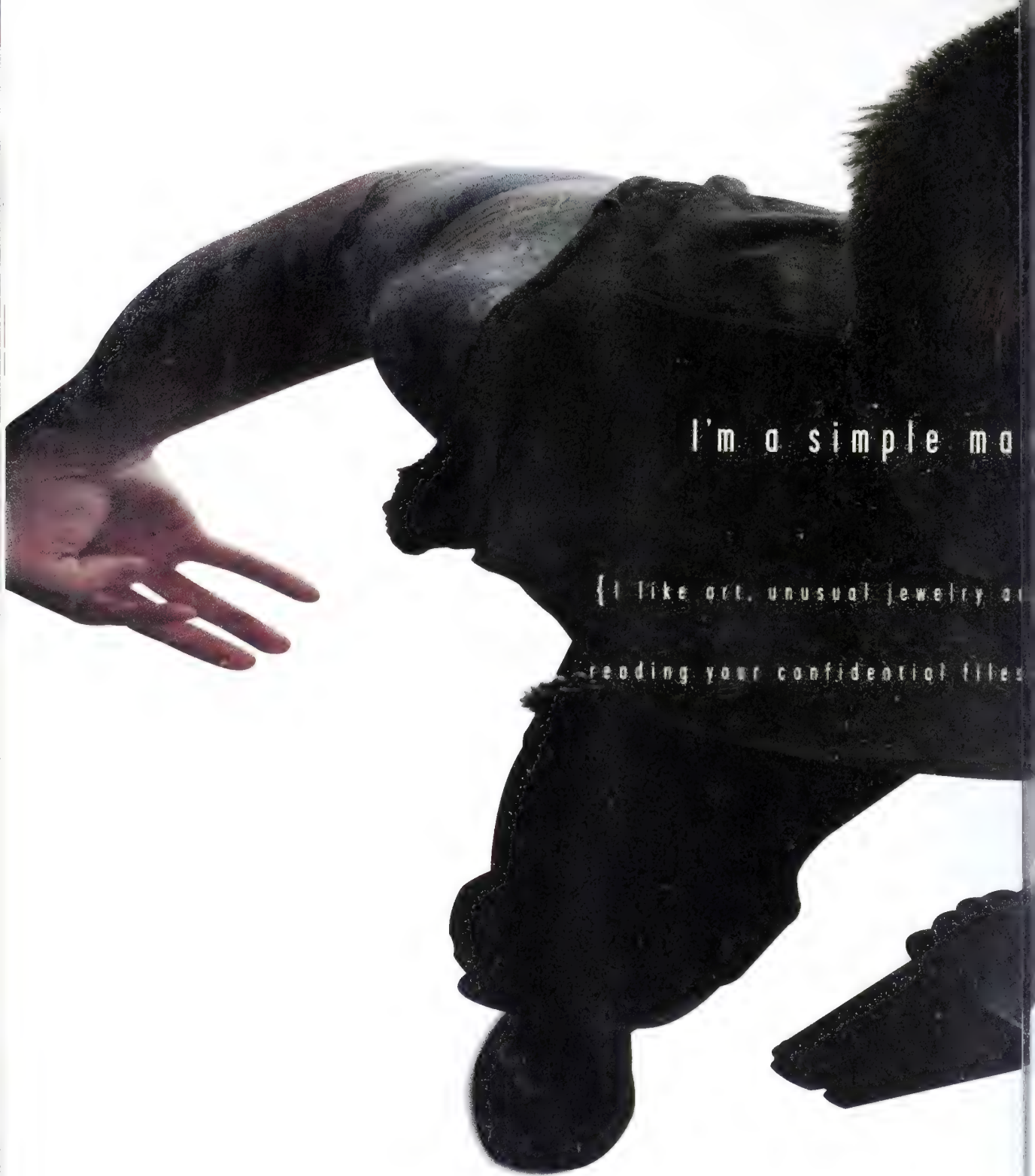




The new Mita Digital Copier/Printer.
(PC is optional.)

As a stand-alone copier it's in a class by itself, making up to 99 copies from a single scan. And as a 600 dpi network printer, it lets you produce sorted, stapled, finished documents right from your desktop. So while the computer may be optional, the Ai3030 is anything but. For more information call 1-800-ABC-MITA or visit www.mita.com.





I'm a simple man

{ I like art, unusual jewelry and

reading your confidential files

SCARY THING IS THIS GUY IS NOT ALONE. LOTS OF PEOPLE WOULD LOVE NOTHING MORE
80% OF THE FORTUNE 100 HAVE CHOSEN NETWORK ASSOCIATES FOR THEIR NETWORK
1-800-332-9966, DEPT. 1938, OR VISIT WWW.NAI.COM. BUT CONTACT US SOON, BECAUSE



McAfee Total Virus Defense

PGP Total Network Security

Sniffer Total Network Visibility

McAfee Total Service Desk

AN TO MESS WITH YOUR NETWORK. FORTUNATELY, YOU ARE NOT ALONE EITHER. OVER
 CURITY AND MANAGEMENT. TO FIND OUT MORE, CALL
 S TONGUE ISN'T THE ONLY THING HE WANTS TO PIERCE.



Who's watching your network

1998

HOT GROWTH COMPANIES

To win a position in this table, a company must excel in three ways. The selection process begins by ranking companies according to their three-year results in sales growth, earnings growth, and return on invested capital. The ranks in the table are calculated from these numbers. A company's composite rank is the sum of 0.5 times its rank in return on total capital, plus 0.25 times each of its growth ranks.

Standard & Poor's Compustat, a division of The McGraw-Hill Companies, which has computerized financial data on 10,000

publicly traded corporations, provided the pool of companies from which winners were selected. To qualify, a company has to have annual sales of more than \$10 million and less than \$150 million, a current market value greater than \$1 million, a current stock price greater than \$5, and be actively traded. Banks, insurers, real estate firms, and utilities are excluded. So are companies with sharp declines in current financial results, as well as companies where other developments raise questions about future performance.

SALES and EARNINGS are the latest available through the most recent 12 months. Earnings include net income from continuing operations, before gains or losses from extraordinary items.

INCREASES in SALES and PROFITS are calculated using the least-squares method. If results for the earliest year are negative, the average is for two years.

RETURN ON CAPITAL is earnings plus minority interests and tax-adjusted interest expense expressed as a percent of total debt and equity. For ranking purposes, the maximum allowable

annual return on invested capital is 100%. If companies have made substantial accounting restatements, long-term return may be averaged for two years instead of three years.

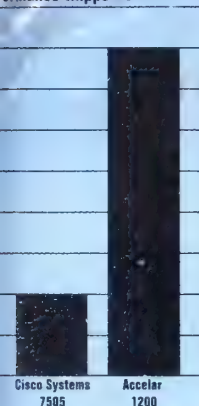
Time periods vary according to the month of a company's fiscal yearend. Profitability and growth are calculated based on the most recently available data.

STOCK PRICE data are as of May 8, 1998. A ● indicates that a company also appeared in last year's rankings (BW—May 2, 1997).

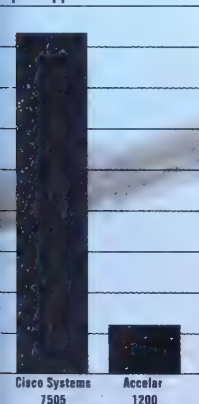
COMPANY (STOCK SYMBOL)	CURRENT RESULTS		THREE-YEAR AVERAGES			INVESTMENT DATA				
	SALES \$ MIL.	EARNINGS \$ MIL.	INCREASE % SALES	PROFITS	RETURN ON CAPITAL	STOCK PRICE			P-E RATIO	MARKET VALUE \$ MIL.
1 KENDLE INTERNATIONAL (KNDL) Cincinnati 513-381-5550 Researchers for pharmaceutical and biotechnology industries	58.0	4.6	168.9	158.8	59.3	30-10	25	36	215	
2 WESTOWER (WTW) Vancouver, Wash. 360-750-9355 Builds wireless transmitting and receiving facilities	23.2	2.5	111.3	215.6	56.7	28-8	26	46	109	
3 YURIE SYSTEMS (YURI) Landover, Md. 301-352-4600 ● Transports voice, video, and data traffic over a single network	61.8	9.0	192.4	161.5	41.8	40-9	35	106	882	
4 APEX PC SOLUTIONS (APEX) Woodinville, Wash. 425-402-9393 ● Their switching systems allow a single computer to operate multiple servers	59.5	11.8	93.7	111.3	57.1	42-7	30	21	407	
5 HOLT'S CIGAR HOLDINGS (HOLT) Philadelphia 215-676-8778 Stogie sellers: 170 brands plus accoutrements	29.1	5.0	75.2	208.9	50.3	11-6	7	7	43	
6 DUNN COMPUTER (DNCC) Sterling, Va. 703-450-0400 It makes custom computer systems for government and business	26.7	1.5	76.1	133.2	41.5	11-6	10	38	49	
7 STEVEN MYERS & ASSOCIATES (WINS) Newport Beach, Calif. 714-975-1550 Helps its clients submit proposals on commercial and government contracts	40.4	9.4	33.3	263.3	58.1	20-11	19	28	283	
8 MEDICAL MANAGER (MMGR) Tampa 813-287-2990 Compu-Doc: Provides management systems software to doctors	90.6	11.9	166.3	37.4	76.2	32-9	28	47	549	
9 HALL, KINION & ASSOCIATES (HAKI) Cupertino, Calif. 408-863-5600 Supplier of professionals for info-tech companies	100.5	3.4	79.0	292.9	32.8	23-11	15	45	138	
10 PROCOM TECHNOLOGY (PRCM) Irvine, Calif. 714-852-1000 ● CD-ROMs, servers, arrays, and upgrade storage solutions	112.6	8.5	48.6	241.8	41.2	19-7	8	11	91	
11 PJ AMERICA (PJAM) Birmingham, Ala. 205-836-1212 ● Pizza, primarily take-out	51.7	4.1	114.5	96.5	35.0	22-13	20	28	579	
12 COAST DENTAL SERVICES (CDEN) Tampa 813-288-1999 It keeps dentists smiling with management services	23.8	4.1	145.5	290.1	26.7	32-14	24	40	179	
13 OMNI ENERGY SERVICES (OMNI) Carencro, La. 318-896-6664 Oil-field services: Surveying and seismic drilling on the bayou	62.5	7.2	97.7	70.6	36.0	16-9	16	27	252	
14 ABACUS DIRECT (ABDR) Westminster, Colo. 303-657-2800 ● Helps direct-mail sellers target customers	34.5	8.2	70.5	55.5	49.0	58-25	55	67	525	
15 INFORMATION MGMT. RESOURCES (IMRS) Clearwater, Fla. 813-797-7080 ● Provides and maintains suites of software for big-name companies	100.7	15.9	91.8	117.3	29.0	42-11	28	60	717	
16 RETROSPETTIVA (RTRO) Beverly Hills, Calif. 310-657-1745 Contract apparel manufacturer for women's wear	22.8	1.1	48.4	53.9	62.9	8-6	6	15	17	
17 THQ (THQI) Calabasas, Calif. 818-591-1310 Child's play: maker of game software	126.0	15.1	84.6	294.3	27.2	33-7	26	13	174	
18 INTEST (INTT) Cherry Hill, N. J. 609-424-6886 Specializes in docking hardware and test-head manipulators	22.5	4.6	30.5	70.9	66.8	19-5	9	10	51	

THE NEW ECONOMICS OF NETWORKING. THE ACCELAR ROUTING SWITCH VERSUS CISCO ROUTERS.

INFORMATION FLOW*
Performance (Mpps**)



CASH FLOW*
Cost per Mpps



Adaptive Networking
Switching/Routing
Access
Network Management
IP Services

Business success
demands constant
improvement. And adding
Bay Networks Accelar™

Routing Switch family to your
network is a great way to start.

Accelar provides remarkable IP
performance gains at a fraction of the
competition's current cost. And your existing
network doesn't have to change. Simply front-
end your current routers (even Cisco's) with Accelar
Routing Switches. Information flow dramatically
increases. And so does cash flow. Call 1-800-8 BAYNET

ext. 371 to evaluate an Accelar Routing Switch on your network
free! Your network can't wait. And neither can your bottom line.

Get the rest of the story. Visit www.baynetworks.com/go/a2.



Bay Networks

Where Information Flows.

*Based on published network performance data and published price lists. **Millions of packets per second. Subject to restrictions, contact Bay Networks for more information.
©1999 Bay Networks, Inc. All Rights Reserved. Bay Networks is a registered trademark and Accelar and Where Information Flows are trademarks of Bay Networks, Inc.

HOT GROWTH COMPANIES

COMPANY (STOCK SYMBOL)	CURRENT RESULTS		THREE-YEAR AVERAGES			INVESTMENT DATA			
	SALES \$ MIL	EARNINGS \$ MIL	INCREASE (%) SALES	PROFITS	RETURN ON CAPITAL	STOCK PRICE		P-E RATIO	MARKET VALUE \$ MIL
19 FORRESTER RESEARCH (FORR) Cambridge, Mass. 617-497-7090 ● Analyzes and predicts the course of technological change	45.4	5.9	61.9	57.7	41.6	39 - 19	37	56	314
20 DOVER DOWNS ENTERTAINMENT (DVD) Dover, Del. 302-674-4600 ● Auto and harness racing, plus video lotteries	132.0	20.8	99.8	70.9	31.6	34 - 16	33	24	496
21 TIER TECHNOLOGIES (TIER) Walnut Creek, Calif. 510-937-3950 Information-technology consultants for businesses	37.5	1.7	55.9	105.4	32.2	23 - 9	20	90	184
22 DAVOX (DAVX) Westford, Mass. 978-952-0200 ● Technology for telemarketing and customer-service businesses	82.7	18.9	37.3	95.6	39.3	40 - 19	19	13	229
23 SAPIENT (SAPE) Cambridge, Mass. 617-621-0200 ● Its business is your business: Consultants provide info-tech solutions	102.9	13.9	103.0	109.0	26.4	58 - 17	40	75	968
24 BORON, LEPORE & ASSOCIATES (BLPG) Fair Lawn, N. J. 201-791-7272 Marketing services for major pharmaceutical companies	91.4	7.1	55.4	56.3	39.0	38 - 20	34	44	373
25 AVTEAM (AVTM) Miramar, Fla. 954-431-2359 Resells aircraft engines, parts, and components	57.6	4.5	79.4	82.9	28.0	12 - 8	12	24	136
26 MELITA INTERNATIONAL (MELI) Norcross, Ga. 770-239-4000 Are you on hold? It helps businesses automate calling	71.5	10.8	34.4	58.2	49.8	19 - 8	13	18	199
27 VISIO (VSIO) Seattle 206-521-4500 Picture this: Producers of drawing, diagramming, and mapping software	133.7	21.8	69.5	153.8	26.7	51 - 25	48	67	1379
28 OAOT TECHNOLOGY SOLUTIONS (OAOT) Greenbelt, Md. 301-486-0400 Provides outsourced info-tech solutions and services	84.7	2.9	55.2	60.7	33.6	13 - 6	7	27	109
29 MONARCH DENTAL (MDDS) Dallas 972-702-7446 Bridges the gap: Manages dental group practices	52.8	3.0	98.7	15.1	37.1	24 - 11	17	45	169
30 SEMTECH (SMTC) Newbury Park, Calif. 805-498-2111 ● Semiconductors for the military and the computer and aerospace industries	102.8	14.8	52.3	113.3	27.3	36 - 11	25	26	361
31 OPTEK TECHNOLOGY (OPTT) Carrollton, Tex. 972-323-2200 Manufactures infrared and magnetic sensing products	79.3	13.5	10.5	55.0	67.7	28 - 11	22	13	94
32 JDA SOFTWARE GROUP (JDAS) Phoenix 602-404-5500 Provider of integrated software products for the retailing industry	105.8	13.6	57.0	15.8	44.6	59 - 25	48	46	636
33 POWERWAVE TECHNOLOGIES (PWAV) Irvine, Calif. 714-757-0530 ● They make radio-frequency power amplifiers for wireless networks	122.1	15.6	73.0	75.8	27.7	49 - 9	18	21	312
34 DELTEK SYSTEMS (DLTK) McLean, Va. 703-734-8606 Techno-wizardry: Provides project-oriented software solutions	53.6	11.2	31.5	10.5	79.0	24 - 10	24	17	411
35 VDI MEDIA (VDIM) Hollywood, Calif. 213-957-5500 Video duplication and distribution services	40.8	4.0	40.5	51.2	41.1	21 - 6	18	41	172
36 EXCEL SWITCHING (XLSW) Hyannis, Mass. 508-862-3000 Switching platforms for telecommunications networks	95.8	20.7	63.3	62.5	27.9	28 - 14	20	38	660
37 ASI SOLUTIONS (ASIS) New York City 212-319-8400 Helps large companies hire and train workforces	28.0	1.9	54.1	56.2	30.7	15 - 6	10	30	65
38 SHOE PAVILION (SHOE) Richmond, Calif. 510-970-9775 Bargain shoes, with more than 50 West Coast stores	48.4	3.5	27.0	138.7	29.4	12 - 6	10	999	65
39 BRASS EAGLE (XTRM) Rogers, Ark. 501-621-4390 Splat! Complete outfitters for the new sport of paintball	47.4	4.5	147.0	341.5	16.0	17 - 11	17	23	121
40 SCHUFF STEEL (SHUF) Phoenix 602-252-7787 It fabricates and erects structural steel for construction projects	140.1	8.6	30.1	48.3	45.0	16 - 8	15	12	105
41 ARIS (ARSC) Seattle 425-372-2747 Training and consulting services for packaged software users	65.5	5.3	96.8	75.1	24.1	36 - 18	31	59	311
42 SEAMED (SEMD) Redmond, Wash. 425-867-1818 Makes electronic instruments for medical technology companies	66.3	3.8	52.0	41.3	36.3	21 - 15	16	24	83
43 SIGNATURE EYEWEAR (SEYE) Inglewood, Calif. 310-330-2700 It designs and markets brand-name fashion eyewear	33.1	3.5	18.6	48.1	56.0	12 - 7	9	10	47
44 VERITAS SOFTWARE (VRTS) Mountain View, Calif. 650-335-8000 ● Programs that help convert large mainframes to smaller computer systems	134.6	26.4	94.7	86.5	22.7	66 - 22	54	70	1668
45 GENERAL EMPLOYMENT ENTERPRISES (JOB) Oakbrook Terrace, Ill. 630-954-0400 ● Provides employees for info-tech companies	34.4	2.9	28.5	54.3	36.8	21 - 7	14	19	54
46 HORIZON HEALTH (HORC) Lewisville, Tex. 972-420-8200 Psychiatric and specialty rehab is its biz	122.7	8.2	58.5	62.6	24.9	29 - 16	21	22	145
47 MEADE INSTRUMENTS (MEAD) Irvine, Calif. 714-451-1450 O say can you see: Astronomical instruments, binoculars, and microscopes	59.9	3.7	36.2	17.9	39.0	11 - 7	11	22	83
48 LECG (XPT) Emeryville, Calif. 510-653-9800 Provides economic consulting, expert testimony, and litigation support	50.0	5.8	22.0	13.2	56.0	17 - 8	16	30	206

At least my data's safe.

Isn't your propensity to misplace things the reason you meticulously record all your appointments, contacts, to-do list and expenses in an organizer anyway? Well, what if you misplace your organizer? Then where are you? Probably on your way to get a Palm III™ organizer. Because HotSync® technology lets you back-up and exchange information (like e-mail) with your PC so you won't lose your data even if you lose your organizer. There's never an occasion for entering things twice – it's all there, all the time. And with infrared transfer, you can send information and applications to other Palm III users. Thousands of developers are making new applications available every day, and since Palm Computing products are already the fastest selling handheld computing products in history – fewer people are saying,



"I meant to call, but I lost your number." For a Palm III

retailer near you, visit www.palm.com

or call 1-800-861-2529.

Palm III™

The connected organizer.

PalmPilot™ Professional - \$299*
• Instantly syncs with your PC
• Stores thousands of entries
• E-mail and Internet ready

Palm III Organizer - \$399*
(Includes PalmPilot Professional features plus)
• Infrared Transfer
• Twice the memory
• Applications available from thousands of developers
• Links to Symantec ACT! and Microsoft Outlook 97 included

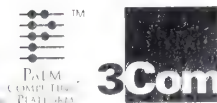
Optional links (sold separately) available for

- Ascend 97
- ECCO
- GoldMine
- Lotus Organizer and Notes
- Maximizer
- and more

Palm™ Mail compatible with
• Eudora 3.0.3 or higher
• Lotus cc Mail v 7.0, 6.0, 2.5
• Microsoft Exchange 4.0 or higher
• Microsoft Outlook 97
• Windows Messaging 4.0
• and more



All prices U.S. list prices. MacPac connection kit, required for Macintosh connectivity, sold separately for \$14.95. Palm™ Mail and Expense applications and some links to desktop software not supported on Macintosh. © 1998 3Com Corp. 3Com, the 3Com logo, Palm Computing, and HotSync are registered trademarks, and PalmPilot, Palm III, Palm, the Palm III logo, and the Palm Computing platform logo are trademarks of Palm Computing, Inc. or 3Com Corporation. Other product and brand names may be trademarks or registered trademarks of their respective owners. This product is not manufactured by Pilot Corporation or Pilot Corporation of America, manufacturers and distributors of writing instruments.



HOT GROWTH COMPANIES

RANK	COMPANY (STOCK SYMBOL)	CURRENT RESULTS		THREE-YEAR AVERAGES			INVESTMENT DATA			
		SALES \$ MIL	EARNINGS \$ MIL	INCREASE (%) SALES	PROFITS	RETURN ON CAPITAL	STOCK PRICE		P/E RATIO	MAR VAL \$ MIL
							52-WEEK HIGH - LOW	RECENT		
49	NCO GROUP (NCOG) Ft. Washington, Pa. 215-793-9300 ● Accounts-receivable management and other outsourcing services	94.8	8.1	117.5	93.5	18.6	31 - 14	26	45	33
50	HURCO (HURC) Indianapolis 317-293-5309 Designs and produces computer technology for the metal-cutting industry	95.6	15.0	9.8	722.6	25.0	10 - 5	8	4	9
51	SUPERIOR ENERGY SERVICES (SESI) Harvey, La. 504-362-4321 Services and equipment for oil and gas exploration	67.8	12.4	98.5	346.8	13.9	15 - 5	11	22	31
52	SPECIALTY TELECONSTRUCTORS (SCTR) Cedar Crest, N. M. 505-281-2197 Builds and maintains wireless-communications towers	72.9	7.1	116.1	110.9	15.6	45 - 10	45	51	39
53	COHERENT COMMUNS. SYSTEMS (CCSC) Ashburn, Va. 703-729-6400 ● Digital and acoustic echo-cancellation technology	77.0	14.8	33.1	51.5	31.8	51 - 17	49	52	78
54	MEADOWCRAFT (MWI) Birmingham, Ala. 205-853-2220 Manufactures wrought-iron furniture for indoors and out	145.1	26.6	7.7	24.8	54.1	17 - 10	16	10	31
55	JAKKS PACIFIC (JAKK) Malibu, Calif. 310-456-7799 Santa's helpers: Makes and sells toys and children's electronic products	47.7	3.0	162.7	152.8	12.9	11 - 5	10	17	5
56	OCULAR SCIENCES (OCLR) South San Francisco 650-583-1400 Look sharp: Makers of soft contact lenses	126.9	24.7	34.5	54.9	27.9	35 - 17	28	25	61
57	HI-SHEAR TECHNOLOGY (HSR) Torrance, Calif. 310-784-2100 Aerospace manufacturing, emergency rescue tools, and more	17.7	1.2	18.3	155.7	24.7	10 - 5	8	43	5
58	HEALTHWORLD (HWLD) New York City 212-966-0077 International marketing services for the health-care industry	43.0	4.1	39.7	43.1	28.4	20 - 9	16	21	11
59	DIGITAL POWER (DPW) Fremont, Calif. 510-657-2635 Maker of AC/DC and DC/DC converters	18.9	1.4	43.9	109.0	21.3	11 - 5	6	14	1
60	ADVANCED DIGITAL INFORMATION (ADIC) Redmond, Wash. 425-881-8004 It manufactures tape-based data backup devices and automated tape libraries	96.0	9.2	68.6	439.4	14.2	23 - 14	20	21	19
61	ARBOR SOFTWARE (ARSW) Sunnyvale, Calif. 408-744-9500 ● Onward and upward: Software for management analysis and planning	82.2	6.9	92.1	157.5	13.2	53 - 24	45	78	51
62	DATASTREAM SYSTEMS (DSTM) Greenville, S. C. 864-422-5001 Software training and consulting in computerized maintenance-management systems	75.2	9.7	85.6	89.6	16.6	28 - 6	23	46	42
63	STRAYER EDUCATION (STRA) Washington, D. C. 202-408-2424 ● A regional college specializing in computer and business classes	56.2	15.6	16.0	43.0	36.1	38 - 16	35	35	54
64	INTL. MICROCOMPUTER SOFTWARE (IMSI) San Rafael, Calif. 415-257-3000 Creates and sells software for business and home	57.0	0.1	22.3	96.6	24.6	19 - 9	17	NM	9
65	COMPLETE BUSINESS SOLUTIONS (CBSL) Farmington Hills, Mich. 248-488-2088 Provides and implements information-technology services	142.8	6.5	35.5	170.9	18.9	44 - 5	30	50	81
66	CURATIVE HEALTH SERVICES (CURE) Hauppauge, N. Y. 516-232-7000 Operators of clinics specializing in wound treatment	92.8	16.7	29.3	97.7	22.9	39 - 22	31	25	39
67	K V PHARMACEUTICAL (KV/A) St. Louis 314-645-6600 It makes generic drugs and develops time-release processes	85.7	11.0	27.9	65.1	25.1	23 - 9	21	36	37
68	BIO-TECHNOLOGY GENERAL (BTGC) Iselin, N. J. 732-632-8800 Makers of health-care products, genetically engineered and otherwise	65.9	14.4	57.0	105.9	15.6	17 - 7	9	30	40
69	JACK HENRY & ASSOCIATES (JKHY) Monett, Mo. 417-235-6652 Show them the money! Computer software for the banking industry	95.5	19.3	30.7	37.7	28.7	39 - 19	35	36	66
70	SYNTEL (SYNT) Troy, Mich. 248-619-2800 Info-tech solutions for companies and government, such as Year 2000 compliance	139.6	14.3	17.3	41.1	32.7	40 - 6	30	79	113
71	UNIVERSAL STAINLESS & ALLOY PRODS. (USAP) Bridgeville, Pa. 412-257-7600 Makers of stainless, tool, and high-temperature alloy steels	84.9	7.4	127.0	62.7	14.2	18 - 10	11	10	68
72	ORBIT/FR (ORFR) Horsham, Pa. 215-674-5100 Microwave test and measurement systems for auto, wireless, and aerospace industries	21.5	3.1	43.3	211.8	14.8	32 - 9	11	20	61
73	WINSTON RESOURCES (WRS) New York City 212-557-5000 Provides personnel and placement services	52.8	1.6	26.6	31.8	29.9	7 - 3	6	14	20
74	HORIZON PHARMACIES (HZP) Princeton, Tex. 972-736-2424 Owns and operates pharmacies, primarily in smaller, rural locations	36.1	0.5	112.9	59.4	14.5	15 - 4	14	29	61
75	LHS GROUP (LHSG) Atlanta 770-280-3000 Provides customer-service solutions for telecommunications biz	117.7	14.5	75.5	89.6	14.4	148 - 19	122	222	3085
76	INTEGRATED SYSTEMS CONSULTING GRP. (ISCG) Wayne, Pa. 610-989-7000 Info-tech consulting firm for a variety of industries	48.4	3.9	47.0	44.6	24.3	16 - 8	14	32	113
77	MICREL (MCRL) San Jose, Calif. 408-944-0800 ● Designs, manufactures, and markets high-performance analog integrated circuits	114.7	19.2	40.7	72.4	20.4	47 - 21	39	42	753
78	ELTRON INTERNATIONAL (ELTN) Simi Valley, Calif. 805-579-1800 ● Maker of bar-code-label printers	112.5	12.4	84.2	53.2	18.7	36 - 19	26	17	195

Before you dive headfirst into
digital copiers, we'd like to
re-introduce the art of thinking ahead.



*The Océ 3165 digital copier/printer can
be linked to your computer network this very
minute or the minute you're ready.*

When investing in a digital copier/printer, a little
forethought can go a long way. Before taking the plunge,
consider this: many digital copiers are painfully slow, non-
networkable and require an advanced degree to operate.

Now consider the Océ 3165 digital copier/printer.
It runs at a remarkably rapid 62 ppm. It can interact
with any PC on virtually any network, maximizing
your productivity by letting you print, copy, and collate
right from your desk. And with Océ Image Logic,
high-quality images, graphs and text are achieved
without endless adjustments.

Invest in the smarter, faster, more
productive Océ 3165. Otherwise, in
the future, you may hear yourself sheepishly muttering,
"In hindsight we should have gone with Océ."



*Sharpen your digital acumen with your free Digital
Copier Buyer's Guide. Call 1-888-462-3872, ext. 143.
For general copier enlightenment, visit www.oceusa.com*



H E B R A I N S B E H I N D B E T T E R D O C U M E N T S

HOT GROWTH COMPANIES

COMPANY (STOCK SYMBOL)	CURRENT RESULTS		THREE-YEAR AVERAGES		INVESTMENT DATA				
	SALES \$ MIL.	EARNINGS \$ MIL.	INCREASE (%) SALES	PROFITS	RETURN ON CAPITAL	STOCK PRICE		P-F RATIO	MARKET VALU \$ MIL.
79 GREAT PLAINS SOFTWARE (GPSI) Fargo, N. D. 701-281-0550 Provider of financial-management software	77.1	7.7	27.5	140.8	19.4	40-20	36	61	490
80 ACTRADE INTERNATIONAL (ACRT) New York City 212-563-1036 Provides financial services through its trade-acceptance draft program	82.7	3.9	52.3	94.7	15.2	30-11	15	30	120
81 RELIABILITY (REAL) Houston 281-492-0550 Makers of equipment used to test integrated circuits	52.0	9.2	24.1	42.6	27.9	31-5	12	8	70
82 ONTRACK DATA INTERNATIONAL (ONDI) Eden Prairie, Minn. 612-937-1107 Specializes in data recovery and software to protect data	36.1	6.0	45.4	54.0	21.9	28-12	13	22	120
83 TIMBERLINE SOFTWARE (TMBS) Beaverton, Ore. 503-626-6775 Makers of management software for the construction biz	37.1	5.4	17.4	52.7	26.8	20-6	20	27	140
84 FARO TECHNOLOGIES (FARO) Lake Mary, Fla. 407-333-9911 Makes 3D measurement systems that integrate CAD, CAM, and CAE technologies	25.3	3.5	70.8	41.6	20.6	18-9	12	30	110
85 HAGLER BAILLY (HBIX) Arlington, Va. 703-351-0300 Consultant to government and business on energy, resources, and the environment	87.6	5.8	31.9	67.0	21.1	29-16	29	41	250
86 Q. E.P. (QEPC) Boca Raton, Fla. 561-994-5550 ● Hands on: Tools for the installation of tile, marble, and masonry	53.7	2.0	45.8	37.2	24.1	11-7	9	12	240
87 FORENSIC TECHNOLOGIES INTL. (FTIC) Annapolis, Md. 410-224-8770 Beyond a shadow of a doubt: Expert-witness consulting	48.7	3.8	47.4	70.3	17.2	21-7	17	22	780
88 FACTSET RESEARCH SYSTEMS (FDS) Greenwich, Conn. 203-863-1500 Information for those in the financial know	68.1	10.6	25.9	62.2	23.2	37-19	33	34	320
89 U. S. PHYSICAL THERAPY (USPH) Houston 713-297-7000 Owns and operates outpatient physical therapy centers	40.2	2.5	31.1	80.8	19.4	13-9	12	18	430
90 AMERICAN COIN MERCHANDISING (AMCN) Boulder, Colo. 303-444-2559 ● Take a ride with this amusement-park prize vendor	59.1	4.4	49.6	52.7	20.1	23-7	23	30	146
91 AMERICAN SCIENCE & ENGINEERING (ASE) Billerica, Mass. 978-262-8700 Developer of X-ray instruments for NASA and others	32.1	2.6	37.5	80.4	16.8	15-9	14	25	640
92 BALLANTYNE OF OMAHA (BTN) Omaha 402-453-4444 ● Lights, camera, action: Supplier of motion-picture equipment	72.8	8.0	34.6	50.1	22.7	23-14	20	23	180
93 TMBR/SHARP DRILLING (TBDI) Midland, Tex. 915-699-5050 Onshore drilling for major and independent oil and gas companies	36.6	7.6	19.9	57.7	23.4	33-9	13	9	610
94 ARROW-MAGNOLIA INTERNATIONAL (ARWM) Dallas 972-247-7111 ● Clean as a whistle: Chemicals for maintaining and cleaning equipment	13.6	1.4	23.8	52.4	24.5	8-4	7	15	180
95 SEATTLE FILMWORKS (FOTO) Seattle 206-281-1390 ● Photofinishing products: Film into prints, slides, or digital images	102.2	10.4	27.5	32.6	26.2	15-8	10	18	1730
96 PERFORMANCE TECHNOLOGIES (PTIX) Rochester, N. Y. 716-256-0200 ● High-performance, fault-tolerant communications and networking products	30.3	5.4	34.6	47.8	22.0	24-8	14	22	1020
97 OSI SYSTEMS (OSIS) Hawthorne, Calif. 310-978-0516 Manufacturers of specialized optoelectronic semiconductors	90.8	7.1	18.2	76.4	20.8	16-11	12	13	1100
98 MIAMI COMPUTER SUPPLY (MCSC) Dayton, Ohio 937-291-8282 ● Distributor of computer supplies, presentation products, and media storage systems	142.4	2.8	44.6	52.3	18.5	20-6	17	39	1400
99 PROFIT RECOVERY GROUP INTL. (PRGX) Atlanta 770-955-3815 Provides recovery audit services to large wholesalers and retailers	124.5	10.0	41.6	46.1	19.2	28-12	27	51	5180
100 K&G MEN'S CENTER (MENS) Atlanta 404-351-7987 ● Men's apparel superstores. Accessories, too	112.8	6.4	32.8	40.9	22.0	25-15	25	39	2480

ALPHABETICAL INDEX OF COMPANIES

The number that follows each company name indicates its ranking in the table

Abacus Direct 14	Davox 22	Horizon Pharmacies 74	Myers (Steven) & Assocs. 7	Seattle FilmWorks 95
Actrade International 80	Deitek Systems 34	Hurco 50	NCO Group 49	Semtech 30
Advanced Digital Info. 60	Digital Power 59	Information Mgmt. Res. 15	OAQ Tech. Solutions 28	Shoe Pavilion 38
American Coin Merch. 90	Dover Downs Ent. 20	Integrated Systems 76	Ocular Sciences 56	Signature Eyewear 43
American Science & Eng. 91	Dunn Computer 6	Intl. Microcomputer 64	Omni Energy Svcs. 13	Specialty Teleconstructors 52
Apex PC Solutions 4	Eltron International 78	inTEST 18	ONTRACK Data Intl. 82	Strayer Education 63
Arbor Software 61	Excel Switching 36	JAKKS Pacific 55	Optek Technology 31	Superior Energy Svcs. 51
ARIS 41	FactSet Research Sys. 88	JDA Software Group 32	ORBIT/FR 72	Syntel 70
Arrow-Magnolia Intl. 94	FARO Technologies 84	K V Pharmaceutical 67	OSI Systems 97	THQ 17
ASI Solutions 37	Forensic Technologies 87	K&G Men's Center 100	Performance Tech. 96	Tier Technologies 21
AVTEAM 25	Forrester Research 19	Kendle International 1	PJ America 11	Timberline Software 83
Ballantyne of Omaha 92	General Employment Ent. 45	LECG 48	Powerwave Tech. 33	TMBR/Sharp Drilling 93
Bio-Technology General 68	Great Plains Software 79	LHS Group 75	Procom Technology 10	U. S. Physical Therapy 89
Boron, LePore & Assocs. 24	Hagler Bailly 85	Meade Instruments 47	Profit Recovery Group 99	Universal Stainless 71
Brass Eagle 39	Hall, Kinion & Assocs. 9	Meadowcraft 54	Q.E.P. 86	VDI Media 35
Coast Dental Services 12	Healthworld 58	Medical Manager 8	Reliability 81	Veritas Software 44
Coherent Commun. Sys. 53	Henry (Jack) & Assocs. 69	Melita International 26	Retrospectiva 16	Visio 27
Complete Bus. Solutions 65	Hi-Shear Technology 57	Miami Computer Supply 98	Sapient 23	Westtower 2
Curative Health Svcs. 66	Holt's Cigar Holdings 5	Micro 77	Schuff Steel 40	Winston Resources 73
Datastream Systems 62	Horizon Health 46	Monarch Dental 29	SeaMED 42	Yunie Systems 3

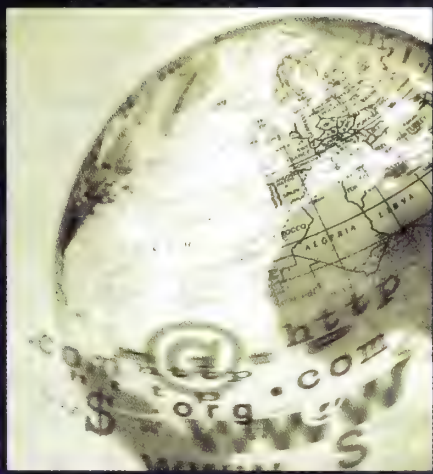
Introducing a streamlined
way of doing business on the

Web

that lets you concentrate on

— of all things —

business.



Making the most of the Web shouldn't mean losing focus on your business. Whether you are looking for a basic marketing Web site, or need to conduct large-scale e-commerce transac-

tions, GTE Internetworking has your solution.

For example, we've developed Res@ch Enterprise,SM a comprehensive suite of value-added Web-based applications and integration services. And thanks to Hopscotch,SM which seamlessly routes traffic to the most available server, your site will be open for business

around the clock. All supported by 12 secure data centers strategically located at key Internet exchange points around the globe. These are just a few examples of

our many high-performance, reliable and scalable Web hosting services.

We've been pioneering Internet-related technology for over 28 years. To find out how we can put our experience to work for you, call us at 800.472.4565, or visit our Web site at www.internetworking.gte.com.

GTE

INTERNETWORKING
POWERED BY BBN

Are you living under the threat of change or in the hope of it?



In 1997, 166,740 businesses started. 83,384 businesses stopped.

Somewhere, in the middle of all these numbers, is success.

Whether a business is big or small, old or new, its well-being depends on its ability to adapt.

What if your biggest competitor, today, launches a product that could very well sink your biggest line?

Or, what if an unforeseen shift in currency prices suddenly opens a new market? Or closes an old one? How will you adapt?

Your technology can play a big role in how fast and how well you can deal with change, especially if it's integrated so that all the parts work together seamlessly.

A Digital_Nervous_System does this.



A Digital_Nervous_System relies on connected PCs and integrated software to make information flow more rich, rapid and accurate. This helps you respond quickly to the surprises you know are coming.

It's not something that comes in a box.

You build your own Digital_Nervous_System, over time, to meet the unique and changing needs of your company.

The foundation of any Digital_Nervous_System is software that acts alike, works alike, thinks alike. Microsoft® Windows®, Office and BackOffice® provide an ideal foundation for a Digital_Nervous_System because we built them from the ground up to work with each other, as well as with an industry's worth of applications.

**Integration makes a Digital_Nervous_System possible.
A Digital_Nervous_System makes you ready.**

And very, very hopeful.

Where do you want to go today?

Microsoft®

www.microsoft.com/dns/

THE WORKPLACE

WELFARE-TO-WORK: A GOOD START



The caseload has fallen, but the 1996 reform hasn't truly been tested yet. Here's how three companies are doing

This much we know: Since 1994, and especially in the past 18 months, the nation's welfare caseload has plummeted. Some 3.5 million families received aid in September, down 30% in four years. The rolls almost certainly have thinned since.

So is reform paying off? It's still not clear. The Personal Responsibility & Work Opportunity Reconciliation Act of 1996 created strong inducements for welfare recipients to find work, setting a five-year lifetime limit on benefits and requiring most people to land jobs within two years. Yet "no one really knows how many are leaving the rolls to get work and how many are leaving because they're pushed off," says Amy Brown, senior operations associate at Manpower Research Demonstration Corp., which studies poverty issues.

At the same time, the robust economy, evinced by April's 4.3% unemployment rate, has created strong demand for entry-level workers, muddying the effect of reform and prompting glum speculation about what happens when growth tails off. "That will be known when we go into recession," says Robert Haveman, an economics professor at the University of Wisconsin.

For now, the jobs are flowing freely. The Welfare to Work Partnership, whose first anniversary the White House will fete on May 27, has enlisted 4,800 companies. Some 79% of members surveyed expect to hire from welfare rolls this year, averaging 81 workers per company. After decades of government-centered welfare strategies, "we think we've made business part of the discussion and part of the solution," says Eli J. Segal, the Partnership's president.

It hasn't hurt that employers can get

federal tax credits of up to \$8,500, in addition to state and local incentives. Many companies, moreover, find that welfare graduates stay in jobs longer than non-welfare counterparts. "Even when there's not full employment, these people represent a good source of employee," says Gerald Greenwald, CEO of U.S. Corp., which has hired 753 recipients as reservations agents, counter agents and the like.

Analysts aren't sure what will make of high retention rates, though: While implying great stability, they also could signal that participants just don't have

WORKING THE PHONE:

California welfare recipients hunt for jobs

the skills to leave for better work. They're concerned that the most state and employer programs focus on getting recipients quickly into jobs, rather than on providing training that could help workers escape the low-skill, low-pay syndrome.

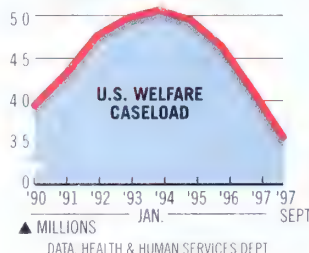
That jobs-first strategy looks good as long as workers receive welfare payments to augment low wages. But when benefits run out after five years—sooner, in many states—many recipients could be left hanging.

Wider Opportunities for Women, a research group, estimates that a single adult supporting three children will face a gap of \$17.47 an hour between basic expenses and a typical \$7.70 hourly wage.

BENEFITS GAP. At the same time, more welfare people in jobs will intensify demands on limited child-care and transportation resources. Mass transit systems don't get workers easily to the

suburbs, where the jobs are. And even with higher federal funding, most states don't offer child-care subsidies to all poor families who qualify, according to the Children's Defense Fund. That's why many parents seek informal care with friends or relatives—arrangements that could fray as recipients work longer hours

IS IT REFORM, OR THE ECONOMY?



to counter benefits cuts.

Sustainable welfare-to-work strategies must tackle these concerns. Working with government and nonprofit groups, business will have to inven-



When you're looking for the most
outstanding
solutions
to your
outsourcing
needs,

there are only **two companies**
to consider...

and they've just
become
one

The leading food and
facilities management
services provider to
corporations, health care
institutions, higher education
and school systems in the
United States and Canada.

SDH
Listed
NYSE

1-800-763-3946 ext. 85445

www.sodexhomarriott.com


Sodexho Marriott
SERVICES

"Marriott" is a registered trademark of Marriott International, Inc., used pursuant to license. In March 1998, Marriott Management Services, a former division of Marriott International, Inc., combined its operations with Sodexho Alliance's in North America. ©1998, Sodexho Marriott Services, Inc.

small-scale, locally oriented programs that address child care, housing, transportation, and training. BUSINESS WEEK assessed three companies—UPS, Cessna Aircraft, and Cascade Engineering—that are headed that way already.

By Keith H. Hammonds
in New York

UPS'S PACKAGE DEAL FOR WORKERS

United Parcel Service of America Inc. has long struggled to find part-timers willing to work odd hours at its distribution center near Philadelphia International Airport. Even so, UPS was wary when, in late 1996, welfare officials in depressed Camden, N.J., offered an almost unlimited supply of labor. Executives wondered whether welfare recipients were worth hiring. And if they were, how could they get from Camden to the remote UPS operation?

A six-month test program answered the first question: UPS retained 88% of its welfare employees, compared with its 60% average in Philadelphia, and it saw no decline in productivity. "I have been pleasantly surprised," says Chairman James P. Kelly.

Transportation, though, remained a quandary. At the start, UPS hired two school buses to ferry workers. Then came a grander solution. UPS asked two public bus systems to extend routes directly to its terminal, promising to subsidize any bus that didn't break even. Now, 53 buses make the trips around the clock, all of them profitable.

The point, for UPS, is to do whatever it takes to keep workers on the job. Tiffany Smith, a 21-year-old sorter, relies on the buses to travel from southwestern Philadelphia. On-site, she meets regularly with a welfare caseworker, brought to the airport by UPS, to find subsidized housing; other workers get similar help for a range of nonwork problems. Smith also takes classes for her general equivalency diploma, taught at the airport by local college professors and paid for by UPS. Smith plans to work toward a nursing degree.

Not all such programs fly. For instance, UPS helps its workers augment their part-time earnings by arranging complementary shifts at KFC, PNC Bank, Hertz, and other jobs nearby. But some welfare recipients can't afford to work more than 20 hours per week, given the child-care costs required. "I would like a second job, but I need someone to look after my sons,"



says Marlene Fuggs, a 27-year-old mother of two from North Philadelphia.

Indeed, Fuggs and other welfare workers at UPS worry about what will happen when their assistance comes to an end. Fuggs makes about \$700 a month from UPS and collects \$210 in food stamps. When food stamps run out, she'll need to work full-time, which will strain her relatives' ability to care for the kids. Yet Fuggs can't pay for professional care and still make the rent.

UPS, which has hired 9,500 welfare recipients nationwide, will have to address such tensions, especially as participants work longer hours to satisfy the law's requirements. For now, it doesn't pay for child care, and the costs of its transit scheme have been nominal. As welfare reform toughens, UPS's role may grow more complex—and more expensive.

By Roy Furchgott in Philadelphia

CESSNA'S ROUTE TO A BETTER LIFE

Here was an all-too-familiar story—a single mother of five kids who had known nothing but life on welfare. Then last year, facing the threat of benefits cuts, 30-year-old Anna Berry entered the training program at Cessna Aircraft Co. Berry says the interviews,

UNITED PARCEL SERVICE

Philadelphia

- ▶ **WELFARE HIRES:** 790
- ▶ **STARTING PAY:** \$8.50/hour
- ▶ **Delivery giant coordinates a public transportation network for workers**

Package handler Tiffany Smith takes the bus from southwestern Philadelphia

testing, attendance requirements, and court work were "real scary and hard all the way." But nearing graduation and a \$9.98-an-hour job at Cessna jet assembly plant across town, her smile is broad: "This program saved me."

Cessna opened its training facility eight years ago in Wichita, depressed 21st Street

corridor essentially to showcase corporate citizenship. "We wanted to create opportunities for people with no skills," says Chairman Russell W. Meyer Jr. has since produced 214 graduates, whom 71% still work at Cessna or other local employers. Along the way, through trial and error and a lot of bucks, the company has discovered it takes more than just job offers to turn welfare recipients with chaotic lives into productive manufacturing workers.

TEMPORARY HOUSING. From the onset, Cessna relied on state social-service agencies to screen applicants and on federal training grants to pay 50% wages for the first six months. In the time, participants learn about budgeting and about cooperating with peers and supervisors, as well as the technical skills they'll need to make airplane parts. Cessna's guarantee: All assembly-line graduates get a job starting at \$9.98 an hour, plus benefits.

Simply providing training, though, did not keep low-income workers on the job. So Cessna began offering graduates counseling and peer mentoring. In the spare

"Cushman & Wakefield is a step in the right direction."



— John Gardner,
Chief Financial Officer,
New Balance Athletic Shoe, Inc.

When New Balance needed a state-of-the-art warehouse and distribution facility, John Gardner knew it would be their largest and single most important investment ever. He also knew he would need a real estate services firm to help manage the construction of his huge project. A firm that would be pro-active, provide added value and go the extra mile.

No wonder John chose Cushman & Wakefield. He wanted one firm with the experience and resources to put together the perfect combination of architects, engineers and contractors, and to seamlessly handle those relationships and the entire process in record time.

From our global reach to our depth of services, from our proprietary research to our creative problem-solving, we're unmatched in the industry. In fact, nobody helps more businesses of all sizes, here and around the world.

To find out how we can help you, call 1-800-346-6789.



Improving your place in the world.SM



ling facility that opened last October, a day-care center takes up to 40 kids, including one of Berry's. And on June 1, the company is set to unveil temporary housing for six families with acute problems such as homelessness or domestic violence. Employees pay 30% of gross income to stay up to six months.

FEAR OF FAILURE. Cessna won't say how much it all costs, but "in pure financial terms, this is not a good proposition," concedes John E. Moore, senior vice-president for human resources. The infrastructure requires heavy investment, and training is time- and labor-intensive. "We can't just herd them through," says Johnnie Cartledge, the program's manager, "because they'll be working on \$15 million business jets, not flipping hamburgers."

Even then, Cessna loses a few. Some 24% of entrants don't graduate, typically those with little education or a poor work history. Strong candidates, too, find it difficult. Chanté Bowser, 25, recalls she "broke down and cried [during training] over trouble with the blueprints and my fear I was going to fail." Now, though, Bowser makes \$13.58 an hour assembling jet fuselages and has just bought a home. "I'm on the cusp of middle income," she beams. And she's off welfare, perhaps, for good.

By Richard A. Melcher in Wichita

FROM THE FRYING PAN TO THE FACTORY

How do unskilled workers escape dead-end jobs? It's the most difficult problem facing welfare reformers. In Grand Rapids, Mich., Cascade Engineering Inc. and Burger King of West Michigan have devised a modest but compelling solution—a ladder of opportunity from the French fryer to the factory floor.

Their program, dubbed "work-to-work," is just getting under way. Welfare recipients will toil six months for \$6 to \$7 an hour at a Burger King, where they'll pick up basic work habits. At the same time, they may take community college night classes in remedial reading and technical skills. Then they'll start on the night shift at one of Cascade's factories, making plastic parts for cars and furniture. They will make \$7 an hour to start, with the opportunity to move up to \$12.50, or \$26,000 a year.



CESSNA AIRCRAFT

Wichita

- **WELFARE HIRES:** 214
- **STARTING PAY:** \$9.98/hour
- Planemaker supports workers with training, child care, and housing

Anna Berry, playing with her daughter Kenya, 5, found initial job demands "hard all the way"

Cascade, with 700 employees and \$140 million in revenues, has been hiring low-income workers for four years. Some 60% stay with the company longer than six months. Many, such as 33-year-old Rodney Decker, had scraped along for years at the bottom of the economic ladder. Unemployed for months, Decker survived by taking food handouts at the Salvation Army and relying on friends for a place to sleep. "Now I'm starting to roll," he says, on a break from packing plastic foam. "I'm going to get my own apartment, I'm putting money in the bank, and I'm fixing on getting a car."

Despite such successes, Cascade Chief Executive Frederick P. Keller was frustrated that 60% of prospective workers flunked the company's entrance exam, which requires 10th grade reading proficiency. Keller shared his gripe with Stuart P. Ray, chairman of Burger King of West Michigan, which owns 41 franchised restaurants. Ray had a problem of his own: simply attracting workers in an area with 2.6% unemployment. "Then it dawned on us that we could help each other," recalls Keller. "Stuart said: 'We can give people a vision of what they could be doing—that they could go from low-wage jobs to a high-paying career.'"

The Michigan Family Independence Agency, which oversees welfare in the state, provided 120 applicants to inter-

view for 30 jobs. State and federal training funds will pay up to half of workers' initial salary. And Cascade and Burger King will share federal tax credits for employing welfare recipients. To get participants to their night shifts—after city buses have stopped running—the companies have helped finance Angel Wings, a church-run shuttle-van service.

Local welfare officials applaud the initiative—"a model we hope other businesses will emulate," says Margaret Gavins of the Family Independence Agency. In time, the program may provide something more lasting than just jobs: a clear path toward self-reliance.

By Keith Naughton in Grand Rapids

CASCADE ENGINEERING

Grand Rapids

- **WELFARE HIRES:** 30
- **STARTING PAY:** \$7/hour
- Participants work at a local Burger King while getting technical training

Michael Raab, recently out of jail, learns how to make plastic parts for Buick Park Avenues



Show 'em a thing or two.

Or three. Edit and send information in real time. Forget about overnight mail, faxes and email.

Or four. Real collaboration. Get remote teams truly working off the same page, highlighting and marking up documents over distance.

Or eight. Ease of use. Just like using a phone, an overhead projector and a pen. It's that simple.

Or seven. Be prepared and be impulsive. Exchange information from paper, transparencies, electronic files or 3-D objects on the fly.

Or five. High-quality color images. Unlike a fax, you'll get the full effect of color—right down to the fine print.

Or six. Flexibility. Connect to one or more sites through your existing local networks, Internet connections or phone lines.

Introducing the 3M™ Dataconferencing System DCS3000. It's obviously useful and absolutely simple. For more information about 3M Advanced Meeting Solutions, call 1-800-952-4059 or visit www.3M.com/meetings

Make the meeting.

3M Innovation



Because people want to soar



FORTIS

Solid partners, flexible solutions[®]



Everyone has goals in life. Some want maximum security, others prefer taking some risks. Whatever your plans may be, Fortis has more than 35,000 employees to help you achieve them. By offering financial solutions to suit your personal and business needs. For now and for the future. From insurance policies to personal financial planning. Wherever you see our logo, you'll find solid partners with flexible solutions. For individuals and companies, large or small. Visit Fortis on the internet at www.fortis.com. Call for more information 800 377 72 82. Fortis is active in the United States, Europe, Asia, Australia and the Caribbean. **Fortis. Insurance. Investments.**

Get the
latest
advertiser
info.

Check out

BizLink

www.businessweek.com/BizLink/

on page 166

To a six-year-old
having an asthma attack,
this is like blowing out
a forest fire.



1-800-LUNG-USA

Because...When you can't breathe,
nothing else matters.®

**AMERICAN
LUNG
ASSOCIATION**

www.lungusa.org

Sports Business



SAILING

IS THAT A SPONSOR OFF THE STARBOARD BOW?

An around-the-world solo race just can't land a big backer

Mark Schrader is a sea dog who has twice sailed alone around the world, surviving everything from icebergs to the storm-tossed waters of Cape Horn. But in some ways, those adventures were a breeze compared with trying to persuade a corporate sponsor to underwrite the next running of the former BOC Challenge—an around-the-world, single-handed sailing race now called Around Alone.

Schrader and Marketing Director Dan McConnell have successfully drummed up a few million dollars from companies and the race's ports of call. That's enough to ensure that some two dozen sailors will be able to cast off from Charleston, S.C., on Sept. 26 for the eight-month, 27,000-mile test of skill, endurance, and technology.

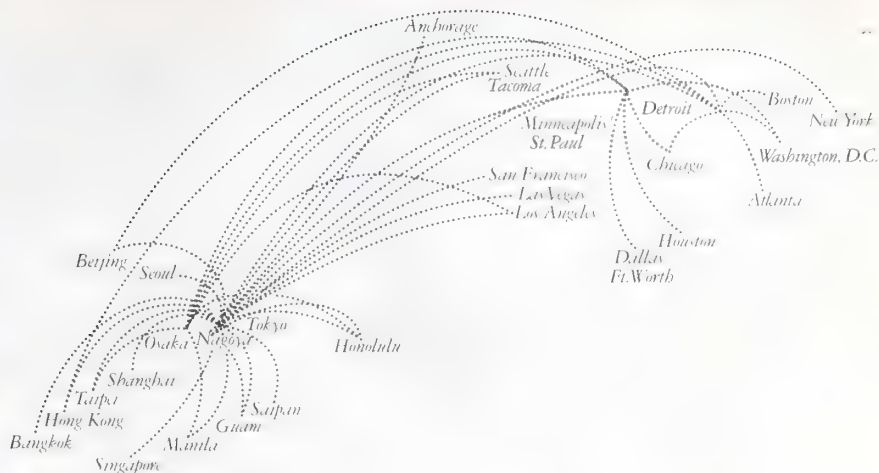
HEADLINES. Schrader and McConnell are still searching for the Big One, a company willing to slap its name on the race for roughly \$5 million (covering prize money and shoreside events). That's chump change in sponsorship, yet everyone from Coca-Cola Co. to Wrangler Inc. has turned them down. "It's very frustrating," says Schrader. "I've lived the event. I know it is every bit as good as we say it is. When potential sponsors

don't see it, I want to jump on the boardroom tables and shake someone.

Around Alone is one of the granddaddies of extreme sports. In 1980, the race was hatched in a Newport (R.I.) pub by a bunch of sailors who were probably more than three sheets to the wind. Under the sponsorship of British industrial giant BOC Group PLC (formerly British Oxygen), the four contests held since 1980 broke through the media clutter to grab headlines. The 1994-95 race featured Frenchwoman Isabelle Autissier, who surged into the lead, fought back from a crippling dismast, and finally was knocked out of the race by a fierce storm.

But all that ink wasn't enough to keep BOC on board. When the company first signed on, then Chairman Richard Giordano and corporate relations chief Nigel Rowe were avid mariners. Rowe even competed in the '94-'95 race. Both are retired, and "the new management has different ideas of how the company should be promoted," says Rowe. So BOC handed control—and some seed money—over to McConnell and Schrader, who had been running the race. Rowe is helping as a consultant.

Although the new team hasn't yet



With more than 100 nonstop flights weekly to Asia, your travel options are endless.

Your choices are extensive...
the possibilities, infinite.

With more than 100 non-stop flights a week from 9 U.S. gateways to cities throughout Asia, Northwest Airlines provides more convenient access to the Far East than any other airline.

More experience, more flights, and more flexibility for you. Your best options to Asia will always be with Northwest Airlines.



Some People Just Know How to Fly®
1-800-447-4747 / www.nwa.com

found a company to captain the race, it has assembled a crew. French clothing maker Guy Cotten is providing competitors with the same survival suit that helped save Autissier (she's racing again this year). Champagne Mumm is supplying the bubbly for one of yachting's favorite pastimes—partying. And Comsat Corp., which developed and supplied a satellite tracking-and-communications system for the 1994-95 race, is again providing support.

"LIFE OF DILBERT." Clearly, though, Around Alone is sailing against the tide. Companies funnel most of the annual \$6.8 billion they spend on sports and event sponsorships into "safe" sports such as basketball and football. And selling Around Alone as an extreme sport to appeal to Generation X presents problems. As agent Marco Greenberg says: "Marketing extreme sports is a challenge. Company execs like to say that they think out of the box, but most of them lead the life of Dilbert." Besides, adds Paul Taublieb, president of LXD Inc., a producer of extreme sporting events, "sailing around the world alone may be extreme, and



Most marketers prefer to fund "safe" sports such as basketball

AUTISSIER'S BOAT WAS CRIPPLED IN THE '94-'95 RACE

I'm sure those guys have a tremendous set of *cojones*. But it's an old school, not a Gen-X thing."

Nor does it help that the waters are getting crowded. Teams preparing for the next running of the America's Cup, in 2000, are beating the corporate bushes for the \$40 million it takes to mount a challenge. In addition, Around Alone is up against other around-the-world

events, including the Whitbread, a team race now wrapping up in Southampton, England. (Volvo has just announced that it will own and sponsor the next contest in 2001.)

So imagine the dilemma faced by Schrader and McConnell when a corporate giant offered them a blank check. The problem: The company was Nabisco Inc. McConnell says he and Schrader did a lot of "long hard soul-searching." But a key element of Around Alone is an educational program in which hundreds of thousands of schoolkids track the sailors as they circumnavigate the globe. Call Schrader and McConnell schmucks, but they couldn't bring themselves to put the name of a tobacco company on the race. After turning RJR down, "we wept for a week," says McConnell.

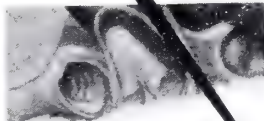
Schrader and McConnell vow to keep searching and are now in talks with European cellular-phone company and others. If they don't pan out, well, they say they'll run this race alone.

By John Carey in Washington

Readers Report

SCEPTERED LABS, INC. CLONES REPLACEMENT HEARTS

Two hearts are better than one... Sceptered Labs, Inc.'s replacement hearts are the marvel. The new hearts are perfect for patients with failing hearts, reducing the risk of surgery.



Big news can mean big opportunity. Points can be made in a heartbeat. So Trade Now™. Go directly to Datek...the fastest and easiest way to invest on the web. Only \$9.99 a trade*. And if it's not executed within 60 seconds, it's commission-free. Trust your trade to Datek. And keep your finger on the pulse.

TRADE NOW



www.datek.com

* All trades up to 5,000 shares are only \$9.99. Your commission is waived if your marketable order is not executed within 60 seconds. Some restrictions to this offer apply. Please check our website for more details. Average execution time on marketable orders is less than 10 seconds (as of 1/10/98). Free news, charts and research provided by NewsAlert, BigCharts® and Thomson Investors Network. Trade Now is a servicemark of Datek Online. ©1998 Datek Securities Corp., Member NASD and SIPC.

DATEK ONLINE

THE PERFECT GETAWAY

Even Doubletree's prices are relaxed.



A dip in the pool. "Do Not Disturb." All at a rate that is easy to take. Oh, and by the way, Doubletree's famous chocolate chip cookies greet you at over 175 locations. Call your travel agent or 800-222-TREE.

DOUBLETREE HOTELS  GUEST SUITES & RESORTS
FOR THE WEEKEND 800-222-TREE

Sweet Dreams

IS IT POSSIBLE TO BE THIS PASSION



©1998 Minolta Corporation. Viper is a registered trademark of Dodge and Chrysler Corporation. Lamborghini is a registered trademark of Automobili Lamborghini.

Digital Document Delivery System

Model: D1620

Digital Cooler



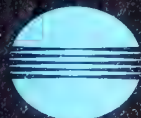
Lift the hood. It is there you'll understand one's appreciation for the remarkable
Minolta D1620. Designed specifically to allow you to control your copying and printing
in-house with unmatched productivity and powerful document finishing capabilities.

At its heart, an advanced digital image processing technology: LIMOS (Laser Intensity Modulation System), Minolta's exclusive process that uses a one-dot intensity varying method to reproduce halftones with subtle precision.

OUT A DOCUMENT SYSTEM?



perhaps what really warrants your personal affection is the Di620's amazing ability to finish the job. It staples
e positions. Punches 2-hole or three-hole. Even folds in three ways: half-fold, crease-fold (with saddle-stitch),
ld for oversized pages. Of course, you can access all these capabilities directly from your desktop
he Di620 as a network printer. ● Experience the power of the Di620. See why it's nothing short
gh performance machine. For more information call 1-800-964-6658. www.minoltad3.com/ad



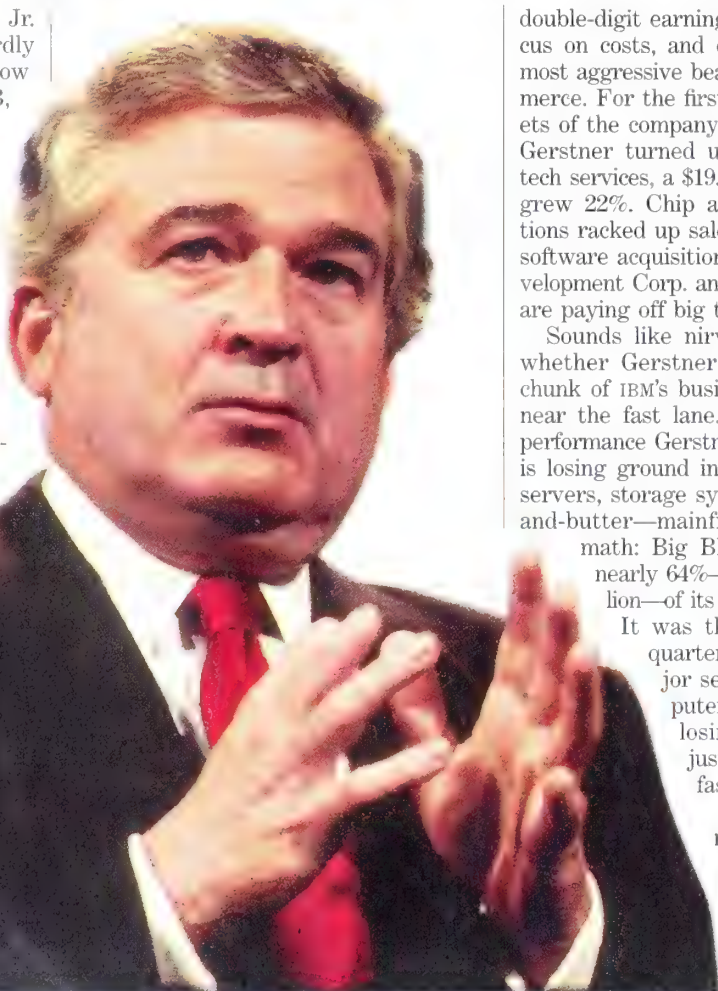
MINOLTA

IBM: BACK TO DOUBLE-DIGIT GROWTH?

Even a worldwide services push and cutting-edge components may not be enough

Listening to Louis V. Gerstner Jr. talk about IBM, you could hardly tell revenue growth is in the low single digits. But on May 13, there was the CEO, reciting for Wall Street a unit-by-unit rundown of IBM's businesses that amounted to a bullish analysis of the computer giant. Gerstner even made a bold prediction: It is "possible" IBM will return to double-digit revenue growth in the next few years.

Investors ate it up. The next day, IBM shares shot up four points, to nearly 126. And why not? For five years, Gerstner has been masterminding one of the most remarkable revivals in corporate history:



double-digit earnings growth, a laser focus on costs, and one of the industry's most aggressive beads on electronic commerce. For the first time in years, pockets of the company are excelling. In 1997, Gerstner turned up the heat on high-tech services, a \$19.3 billion business that grew 22%. Chip and disk-drive operations racked up sales at a 20% clip. At software acquisitions, such as Lotus Development Corp. and Tivoli Systems Inc., are paying off big time.

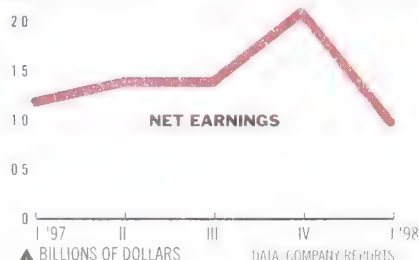
Sounds like nirvana. The troubles are whether Gerstner can rev up a huge chunk of IBM's business that is now well near the fast lane. Despite the upbeat performance Gerstner gave analysts, IBM is losing ground in personal computers, servers, storage systems, and its bread-and-butter—mainframes. Consider the math: Big Blue ended 1997 with

nearly 64%—a staggering \$50 billion—of its business flat to down.

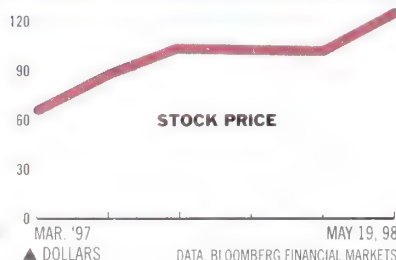
It was the same in the first quarter, a red flag that major segments of IBM's computer business are either losing market share or just not keeping up with fast-growing rivals.

Gerstner aims to make up a lot of the difference with hypergrowth in just one key area: high-tech services. Although IBM execs have cal-

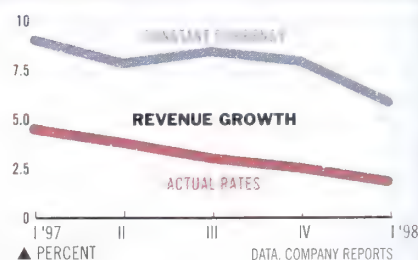
EARNINGS ARE ON TARGET...



...AND IBM'S STOCK IS HITTING NEW HIGHS...



...BUT REVENUE GROWTH IS STILL ANEMIC



business
today,
it's not
just
about
winning...



It's about winning every day.

When everyone is moving in the same direction, toward a common goal, with a clear understanding of their role – that's when you start distancing yourself from your competition.

At Intellution, our goal is to connect people on all levels of your operation – from the control room to the board room – so that everyone is in synch with the mission.

Our top-rated FIX Dynamics™ family of automation software solutions is enabling companies large and small, in all industries, to get the information they need in real-time – for faster, more intelligent, more effective decisions. Which is why three out of four Fortune 100 companies rely on us for their manufacturing automation solutions.

Call for your Industry Excellence Portfolio and see how other companies are winning every day with Intellution.



of the Emerson
Electric Co. Team

Intellution®

THE INTELLIGENT SOLUTION™

www.intellution.com 800.526.3486

The Corporation

tioned analysts for more than a year that the company's services business can't grow at a 20%-plus rate forever, Gerstner now says he's unwilling to accept that. Why? The services sector is going global—a trend, Gerstner says, that should fuel IBM's business strongly enough to carry the company even if its other businesses stay at '97 growth rates. In '96, IBM snagged 27 computer-service deals, each worth more than \$100 million, 21 of them in the U.S. Last year, 14 of 24 big contracts were outside the U.S. And so far this year, five out of seven deals are global. "I have never seen a better growth business than [information-technology] services," says Gerstner.

OTHERS' INNARDS. Still, services alone may not be enough to lift IBM into double digits. That's why Gerstner also has staked out expanding businesses such as collaborative software, PC servers, and disk drives. Longer term, though, he's betting on new terrain. Gerstner wants to reenergize revenues by making Big Blue the premier supplier of electronic-commerce software and services and the master of next technology to build Net-

ready information appliances—the innards of everything from Internet phones to handheld computers to TV set-top boxes.

While Gerstner thinks IBM can reach double-digit growth in a few years, some analysts figure it may take longer. Gerstner is making his prediction based on an

IBM's computer sales were down 8% the first quarter, to \$7.1 billion, from \$7.7 billion a year ago.

Gerstner knows he must do better in the high-tech world, single-digit revenue growth doesn't cut it. Overall, IBM's revenue rose a piddling 3.4% last year and scant 1.8% during the first quarter of this year. Worse, at the same time, major rivals—Compaq Computer, Sun Microsystems, Cisco Systems, Hewlett-Packard, and Microsoft—were growing 4 to 17 times faster. "Every year, IBM grows slower than the industry," says International Data Corp. analyst Frank Gens. "There is a possibility that five years down the road IBM may not be the largest information technology supplier." Says Soundview Financial Group analyst Gary Helmig: "1997 is the turning point here."

Indeed, Big Blue is looking smaller by the day. Microsoft Corp. is now the world's largest software provider, having edged past IBM with \$13.1 billion in software sales during 1997, vs. \$12.8 billion for IBM. In the \$6.6 billion database software market, Oracle Corp. slipped past IBM last year to become tops in the

IBM Every major competitor—Sun, Compaq, Cisco, HP, and Microsoft—is growing 4 to 17 times faster

8.5% 1997 growth rate adjusted for the negative impact of currency. But some analysts don't see it that way. Based on nonadjusted growth rates and a 20% growth in the services business, it'll be 2002 before IBM hits an overall growth rate of 10%, figures analyst Steven Milunovich of Merrill Lynch & Co. The only way IBM can reach that sooner is if the company's software and hardware businesses kick in. While software has been inching back into the growth column—it posted a 2% gain in the first quarter—hardware has been a hamper.

HOW IBM'S GROWTH STACKS UP

PERCENT GROWTH IN REVENUE OVER 1996

WORLDWIDE REVENUE FOR 1997, IN BILLIONS OF DOLLARS



"I need a 401(k) provider who respects my time."

If yours doesn't,
retire them.



plan ahead.

It's frustrating when you have to call your 401(k) provider three times, talk to four different people, just to get one answer. Not with The Principal Financial Group.[®] When you call us with a question, you get a quick, accurate response from one familiar voice. Someone who is directly accountable for your plan.

Combine this personalized service with our low fees plus an impressive array of investment options — including name brand funds. That's one great value from a company with over a century of financial expertise. No wonder more employers choose us to administer their 401(k) plans than any bank, mutual fund, or insurance company.* So give us a call at 1-800-255-6613. Or contact us at www.principal.com on the Internet. As for your present provider, wish them a lengthy retirement.

get ahead.

Plan Ahead. Get Ahead.SM

thePrincipal[®]

**Financial
Group**

401(k) and Pension • Home Mortgages • Life, Health, Dental and Disability Insurance • Annuities • Mutual Funds

©1998 Principal Mutual Life Insurance Company, Des Moines, IA 50392 *CFO magazine, April May 1997, Senior Financial Executive Ranking
Products and services offered through Principal Mutual Life Insurance Company (The Principal), its subsidiaries and affiliates. Mutual funds distributed through
Princor Financial Services Corporation (member SIPC). Health care products not available in all states

The Corporation

field—Oracle's database revenue jumped 20%, to \$1.82 billion, while IBM's grew 8%, to \$1.8 billion, according to market researcher Dataquest Inc.

What's more, IBM, once the undisputed king of hardware, is about to lose that title, too. When Compaq Computer Corp. completes its \$9 billion merger with Digital Equipment Corp., their combined hardware operations will be \$34 billion by yearend. IBM's computer sales are expected to be \$26 billion, essentially flat from '97. Says Compaq Senior Vice-President John T. Rose: "If you're not quick enough, the competition will get by you."

Gerstner wants to get quicker. On Feb. 2, in his annual employee pep talk, he told IBM's 270,000 workers via a televised speech: "We've got to gain market share," he snapped. "This is the year we've got to make it happen." Then, poking a finger at his troops, Gerstner declared: "None of us at IBM is here, certainly not me, because we want to work on a perpetual turnaround. We're finished with the turnaround."

Tough talk aside, Gerstner insists IBM's growth over the past few years has not been shabby. The way he sees it, Big Blue didn't grow a measly 3.4% last year but a respectable 8.5%. How so? IBM calculates the different currency values against the dollar in the 160 countries it does business in to come up with a figure it calls "constant currency." Gerstner argues that since IBM conducts 55% of its business overseas, the only way to get a true measure of how the company is doing is to factor in currency fluctuations around the globe. If you do, he says, IBM is on target: high single-digit revenue growth and double-digit earnings. "You have to look at [growth] from the perspective of constant currency or it really isn't very meaningful," he says.

But even using that logic, IBM's growth doesn't measure up to that of rivals. Hewlett-Packard Co., for example, conducts 56% of its business outside the U.S., yet its revenue still grew 12% last year, without adjusting for constant currency. And in the first quarter, HP's revenue shot up 16%—even with falling PC prices, a problem IBM and Compaq share. "If I'm looking at the growth rate of the

company, I'm not going to use constant currency," says analyst Bret Rekas of BancAmerica Robertson Stephens. Even at the 8.5% constant-currency rate IBM executives are using, Rekas isn't impressed. "I'm supposed to get excited about that?" he asks.

Gerstner, however, is excited about IBM's opportunities for growth in an increasingly digital world. He says Big Blue has two skills it can capitalize on: services and microchip knowhow. Gerstner is betting that the Internet will set

And thanks to leading-edge technology in the components that go into its chips, IBM's gross profit margin is 40%, nearly twice that of competitors'. Concedes Jack Egan, vice-president for rival storage maker EMC: "Periodically, IBM does a great job of getting technology out of its labs and into products."

There's more to come. Companies such as National Semiconductor, Harris, and Northern Telecom are paying just the right to have early access to IBM's state-of-the-art work with silicon ge-



The goal: To become the networked world's premier chip supplier

MICROELECTRONICS CHIEF ATTARDO

nium. With this technology, IBM can make tiny parts using little power. **TRUMP CARD?** That, says Big Blue, will be a boon to communications companies, such as cell-phone makers, especially if they start building next-generation devices that have Net access built in.

Hughes Electronics Corp. is planning to use IBM chips in communications satellites it will launch next year. Says Michael Attardo, general manager of IBM's Microelectronics Div.: "My objective is to be the premier [chip] supplier in the networked world."

By then, Gerstner hopes to be the top supplier of E-commerce tools and services, ranging from Web servers to software for online video to data-mining over the Net. Gerstner is focused heavily on Internet security, Web-management software, even whizzy software in search engines that will translate foreign-language Web pages into English. IBM also bet on most companies to market with networked computers and is getting ready to launch a line of powerful servers that let companies pull the latest programs right from the Net.

With the help of a \$100 million blitz, the company is gaining market share—and business. Gerstner says that research shows IBM is considered by other companies to be a leader in E-com-

off demand for IBM chip technology as well as services to manage new generations of low-cost digital gear. "The network world is the ultimate manifestation of what this technology is going to do," says Gerstner. "It's going to connect everybody and everything." But don't expect IBM to build toasters with tiny computers inside or even handheld computers. It views its role strictly as a components supplier to other companies.

Odds are that Big Blue, already a big technology supplier, will eke a good business out of this IBM Inside strategy. But it's too early to tell whether it will boost growth substantially. The company already supplies superfaster slivers of silicon for Silicon Graphics Inc.'s Cray Research Inc. supercomputers. Networking giants Cisco Systems Inc. and 3Com Corp. use IBM microchips in their communications gear. And phonemaker Qualcomm has adopted IBM chips to make digital phones. In disk drives, rivals—including Compaq, Dell Computer, and EMC—are lining up to buy IBM products.



Now there's a new way to carry your most vital information with you anywhere—with Palm-size PCs powered by the **Microsoft Windows CE** operating system. While designed from the ground up to be the easiest

Is it possible to put the familiarity of Windows in the palm of your hand?

and most intuitive palm-size device, Palm-size PCs maintain the power and familiarity of Windows.

You'll like the way Palm-size PCs keep you effortlessly up-to-date. Because of **Microsoft ActiveSync** technology, your Palm-size PC files stay continuously and automatically in synch with your desktop PC. Just connect a Palm-size PC to your computer, and it does the rest, updating your contacts, calendar, tasks, e-mail and notes. You can even download Web pages for convenient offline viewing.

If you know Windows, you can use a Palm-size PC immediately. And entering data is a cinch, whether you handwrite notes, or use the voice recorder or on-screen keyboard.

Whether your Windows-based world includes a network, a desktop PC, or a laptop, you'll want the palm-size unit that best connects with it all. Look for the logo that says "Powered by Microsoft Windows CE" to ensure secure access to every Windows-based device.

Palm-size PCs powered by Windows CE are available today from multiple hardware vendors. For a reseller near you or for more information about the companies that provide Palm-size PCs, go to



www.microsoft.com/windowsce/ppc

Microsoft

The Corporation

merce. In a coup, retail giant Wal-Mart Stores Inc. dumped Microsoft products in favor of IBM mainframe systems to run its online operations. The Microsoft technology just couldn't handle the load. IBM, says Wal-Mart Chief Information Officer Randy Mott, has improved the power of its large systems to handle massive online volumes. "It's a different company than it was two to three years ago," he says.

NET SHIFT. But E-commerce is not translating into higher product sales for IBM yet. And E-commerce is not as big a catalyst as Gerstner expected two years ago, when he predicted that the Net would set off demand for IBM's big mainframe computers and huge storage systems.

Gerstner is working on that. The company is pumping resources into making PC servers as reliable as mainframes. IBM also is rewriting huge chunks of its mainframe software for Microsoft's Windows NT software, a top seller for servers and workstations.

But IBM must still fight its tendency to move slowly. In the past, the company has hesitated to jump into areas of the industry that have fueled spectacular

growth for rivals. Fearful of damaging what's left of its mainframe business, which produces 70% gross profit margins, IBM only recently started to aggressively push corporate systems using NT or low-cost PC servers.

Then there's SAP, the software of choice for most major corporations to run all facets of business, from manufac-

IBM *One good bet:
Gerstner plans
to take the company's strong
computer-services business global*

turing to finance to human resources. It has been one of the hottest areas in the industry's, now, it's part of IBM's growth plan. But Big Blue was painfully slow to get onboard—turning off customers and missing out on a booming business. Eli Lilly Co. decided against an IBM mainframe because it wanted to run SAP software. Now, the company is using a Sun Microsystems computer.

New blood might help. On May 19, IBM's top salesman, Ned C. Lautenbach,

retired from the computer maker to for a CEO job elsewhere. Lautenbach, quiet, cerebral executive, will be replaced by William A. Etherington, an energetic salesman who has been running IBM sales operations in Europe, the Middle East, and Africa.

In hardware, Gerstner has prompted analysts that IBM will get its act together. The company is working through an inventory of PCs and PC servers. New mainframes and midrange computers should help. IBM's revenue is going to be under pressure from falling prices and most analysts expect growth in this segment to flat this year.

Still, Gerstner is a believer—as are investors. He recently took advantage of IBM's high stock price and, for the first time since joining the company, sold part of his IBM stock for a neat \$14 million profit. If Gerstner wants to profit handsomely on his remaining shares, he needs to hit his growth target.

By Ira Sager in New York, with Greg McWilliams in Houston, Andy Reshard in San Mateo, Calif., and bureau reports

If You Traded Securities on the Nasdaq Market Between May 1, 1989 and July 17, 1996

Please Read This Summary Notice:

THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK ("THE COURT") HAS ORDERED THAT NOTICE BE GIVEN OF THE PENDENCY OF CLASS ACTION AND OF CERTAIN PROPOSED SETTLEMENTS IN IN RE: NASDAQ MARKET-MAKERS ANTITRUST LITIGATION, 94 CIV. 3996 (RWS), M.D.L. NO. 1023 (S.D.N.Y.) ("THE ACTION").

The Court has certified the Action as a class action on behalf of all persons, firms, corporations, and other entities (excluding defendants and other Nasdaq market-makers and their respective affiliates) who purchased or sold Class Securities on the Nasdaq National Market, trading directly (or through agents) with the defendants or their alleged co-conspirators, or with their respective affiliates during the period May 1, 1989 through July 17, 1996 ("Class Period"). The Class includes, but is not limited to, trades through brokers acting as agents. For purposes of this Class definition, the term "Class Securities" refers to 1,659 securities traded on Nasdaq during the Class Period. A list of the Class Securities appears in the Class Notice.

- If you are and wish to remain in the Class, you need not take any action at this time.
- If you meet the Class definition, you will be deemed a member of the Class unless by July 14, 1998 you exclude yourself according to the instructions in the Class Notice.

If you remain in the Class, then you will be bound by any settlements

(including the Proposed Settlements, discussed below) and any favorable or unfavorable judgments entered in the Action. The Class is represented by Class Counsel, whose efforts are coordinated by Plaintiffs' Co-Lead Counsel, who are: Arthur M. Kaplan, Esq., Fine, Kaplan & Black, A Restricted Professional Company; Christopher Lovell, Esq., Lovell & Stewart, LLP; Leonard B. Simon, Esq., Milberg Weiss Bershad Hynes & Lerach LLP; and Robert A. Skirnick, Esq., Meredith Cohen Greenfogel & Skirnick, PC. You may enter an appearance through separate counsel, at your own expense.

Plaintiffs allege that the defendants and others successfully conspired to increase and fix the "spreads" paid by plaintiffs and the members of the Class in connection with purchases and sales of Class Securities. The spread is the difference between the bid and the ask price quoted for a security, and allegedly represents a transaction cost borne by buyers and sellers of Nasdaq securities. Plaintiffs seek to recover treble damages for the Class, together with reimbursement of costs, an award of attorneys' fees, and

an injunction. The defendants are 37 major Nasdaq market-makers identified in the Class Notice. The defendants have denied all of plaintiffs' allegations and have asserted numerous affirmative defenses. The Court has not adjudicated, and expresses no opinion regarding the merits of, any claims or defenses.

Class Counsel have negotiated Proposed Settlements with all defendants, subject to Court approval. The Proposed Settlements provide for aggregate payments, which, including interest, will total (before deductions for fees and expenses permitted by the Court) approximately \$1,027,000,000.00 by the anticipated time of distribution in 1999. The proposed settlements contain

a waiver of rights and broad releases of claims, the terms of which are included in the full class notice. The Court will conduct a Hearing on the first approval of the Proposed Settlements and any petitions for attorneys' fees and reimbursement of expenses on September 9, 1998 at 10 a.m. A Class member wishing to appear at the hearing must submit a Notice of Intention to be Heard, not later than July 14, 1998, according to the instructions in the Class Notice. The full Class Notice is being mailed on about May 15, 1998 to persons identified by defendants as potential class members.

Dated: May 15, 1998 Clerk of the Court, United States District Court for the Southern District of New York.

TO RECEIVE THE FULL CLASS NOTICE (AND FUTURE NOTICES)

CALL: **1-800-933-6363**

OR WRITE: NASDAQ LITIGATION
PO BOX 866

NEW YORK, NY 10019

OR VISIT: <http://www.nasdaqlitigation.com>

OR E-MAIL: notice@nasdaqlitigation.com

PLEASE DO NOT TELEPHONE ANY DEFENDANT,
CLASS COUNSEL OR THE CLERK OF THE COURT.

Each these Business Week advertisers on the Web:

3m.com
na
w.aetna.com
D
w.aimd.com
merican Express Financial
sors
w.americanexpress.com/
lvisors/
e American Institute
Architects
w.aiaonline.com
merican Isuzu Motors, Inc.
w.isuzu.com
merican Power Conversion
w.apcc.com
dersen Consulting
w.ac.com
&T
w.att.com
A Insurance & Investment
w.axa.com
varian Ministry for
onomic Affairs
w.bayern.de
l Atlantic
w.bell-atl.com
sio
w.casio.com
ryslor
w.chryslercorp.com/
co
w.cisco.com
urify
w.clarify.com
F Transportation Inc.
w.cnf.com
mdisco
w.comdisco.com
mpaq
w.compaq.com
mputer Associates
w.cai.com

Compuware Corporation
www.compuware.com
Continental Airlines
www.flycontinental.com
Dale Carnegie Training
www.dale-carnegie.com
Dana Commercial Credit
www.dana.com/dcc
Delta Air Lines
www.delta-air.com
Digital PC
www.windows.digital.com
Diners Club International
www.dinersclub.com
J.D. Edwards & Company
www.jdedwards.com
EMC
www.emc.com
Energy Cost Savings Council
www.plugin.org
Equitable/AXA
www.equitable.com
Ericsson
www.ericsson.se
E*TRADE
www.etrade.com
Federal Express
www.fedex.com
Fidelity Investments
www.fidelity.com
FileNET
www.filenet.com
FlexiInternational Software
www.flexi.com
Ford
www.ford.com/
France Telecom
www.francetelecom.fr
Fujitsu
www.fujitsu.com
Fujitsu PC Corporation
www.fujitsu-pc.com
Gateway 2000
www.gateway.com

GE Information Services
www.geis.com
General Motors
www.gm.com
GTE
www.gte.com
Hammermill
www.hammermillpaper.com
Hewlett-Packard
www.hp.com
Hitachi
www.hitachi.com
Honda
www.honda.com
Hyatt Hotels Corporation
www.hyatt.com
Hyperion Software
www.hysoft.com
IBM
www.ibm.com
International Paper
www.ipaper.com
Iomega
www.iomega.com
JBA International
www.jbaintl.com
Lawson Software
www.Lawson.com
Lexus
www.lexus.com
Lincoln-Mercury
www.lincolnm Mercury.com
Lotus
www.lotus.com
Lucent Technologies
www.lucent.com
MCI
www.mci.com
Mercedes-Benz
www.usa.mercedes-benz.com
Merrill Lynch
www.ml.com/
Microsoft
www.microsoft.com/
Mississippi Power
www.msppower.com/ecodev
MITA
www.mita.com
Mitsubishi Electronics
America, Inc./Electronic
Device Group
www.mitsubishichips.com

Mitsubishi Motor Sales
of America
www.mitsubis.com
MOVADO
The Museum Watch
www.movado.com
NCR
www.ncr.com
Norfolk Southern
www.nscorp.com
Nortel
www.nortel.com
Northwest Airlines
www.nwa.com
Novartis
www.novartis.com
Okidata
www.okidata.com
OPEL
www.opel.com
The Panasonic Personal
Computer Company
www.panasonic.com/ruggedpc
PeopleSoft
www.peoplesoft.com
Praxair
www.praxair.com
PSINet
www.psi.net/
QAD Inc.
www.QAD.com
QUALCOMM
www.qualcomm.com/cdma
Republic National Bank
www.rnb.com
Ricoh Corporation
www.ricoh.com
Roberts Express, Inc.
www.roberts.com
Royal Insurance
www.royal-usa.com
SAP
www.sap.com
SAS Institute
www.sas.com/
Savin
www.sales@savin.com

Charles Schwab
www.schwab.com
Seagate
www.seagate.com
Sharp
www.sharp-usa.com/
Siemens Corporation
www.siemens.com
Siemens Microelectronics
www.smi.siemens.com
Sprint
www.sprint.com
Sun Microsystems
www.sun.com
Symbios Logic
www.symbios.com/bw.htm
TIBCO
www.tibco.com
Tivoli
www.tivoli.com
Toshiba America
Information Systems
computers.toshiba.com
Toyota in America
www.toyota.com/usa
Toyota Motor Corporate
Services
www.toyota.com/usa
Toyota Motors
www.toyota.com
T. Rowe Price
www.troweprice.com
United Technologies
www.utc.com
UPS
www.ups.com
US Airways
www.usairways.com
UUNET Technologies
www.uu.net
Visio
www.visio.com
Vizio
www.vizio.com
Xerox
www.xerox.com

BusinessWeek

www.businessweek.com

You can't beat the **system**. But you
can reach people who
want to buy one.

Maven

the new interactive computer shopping guide.
found only on Business Week Online.

www.businessweek.com

BusinessWeek ONLINE



BY ANTHONY BIANCO

The Dow Jones industrial average was up 65 points and seemingly headed for another record close when Wall Street was convulsed by a rumor that Abby Joseph Cohen was about to alter her bullish stock market forecast. Actually, Cohen, the chief strategist for Goldman, Sachs & Co., was sequestered along with a few hundred other senior Goldman employees at a conference center an hour's drive from Manhattan. As Cohen listened to a speech by Goldman Chief Executive Jon S. Wozniak, someone tapped her on the shoulder. "There's an emergency," the woman whispered. "You must call the office." The Dow had already surrendered 60 points of its gain by the time Cohen reached Steven Wagshal, who mans Goldman's research "hotline" and serves as the firm's official conduit of stock market rumor. Wagshal quickly patched Cohen through to the intercom system that links Goldman offices throughout the world. From his seat on the trading desk in New York, Wagshal watched in awe as the sound of Cohen's voice brought the cavernous room to a standstill. As soon as it became clear that Cohen had not altered her views, hundreds of traders and brokers noisily hit the telephones as one. The market began levitating and ended the day up 35 points. Says Wagshal: "It was as if the world were falling, and Abby came in and stopped it up again."

That was Nov. 16, 1996—some 18 months and 2,800 Dow points ago. In the interim, Cohen has completed her own improbable rise to full-fledged market guru. In an era of wildly proliferating financial punditry, Cohen's opinions on America's latest national obsession—the stock market—now carry more weight than anyone's, with the exception, perhaps, of Warren Buffett's. "A year ago, when Abby was inducted into our Hall of Fame, I said she was the most influential woman on Wall Street," says Louis Rukeyser, host of *Wall Street Week With Louis Rukeyser*. "But now I would say that she is the most influential market forecaster, period."

While Cohen, 46, is much in demand as a commentator on PBS, CNN, CNBC, and other networks, she has performed equally well off camera in her essential role: advising Goldman Sachs's high-powered clientele of institu-

tional investors. Cohen ranks first among strategists in the prestigious surveys of market analysts conducted annually by *Institutional Investor* magazine and by Greenwich Associates. "Abby Cohen is already recognized as the best in her line of work, and [she's] getting better and better," says Charles Ellis, managing partner of Greenwich Associates.

Cohen's chief claim to fame is that she has been bullish on the stock market ever since February, 1991, about three months after the Dow hit bottom at 2,365 and began its epic advance. One by one, many other prominent forecasters have soured on stocks during the last two years—usually during one of the market's short-lived sinking spells. But Cohen has yet to flinch in her be-

Cover Story

THE PROPHET OF WALL STREET

Now Abby Cohen came to be one of the most closely watched forecasters on the planet

lie that the stubborn strength of the U.S. economy gives this bull market more room to run. "It's said that the five scariest words about the market are 'This time it is different,'" Cohen says. "But sometimes it really is different."

Abby Cohen is a respected, even beloved figure, in investing circles, but she practices a profession in which esteem has always been a highly perishable commodity. Wall Street history is filled with sorry tales of fleeting preeminence, of market wizards who made every right move until they went suddenly, irreparably wrong. Does anyone out there remember Joe Granville?

Cover Story

To secure her reputation as Wall Street's finest prognosticator, Cohen is going to have to call the end of the bull market that has made her famous. Reversing field after a long, triumphant run would be tough for any forecaster, but Cohen is under intense pressure. As America's favorite bull, she cannot turn negative now without disrupting the market, perhaps severely. "When she switches, the market

will be down the limit three or four days in a row," predicts a leading hedge-fund investor, referring to New York Stock Exchange rules that automatically halt trading after sharp drops.

"STAIRCASE PATTERN." Cohen's bullishness rests on the belief that big technology-driven productivity gains across Corporate America have allowed the economy to grow at a healthy rate without creating the inflationary pressures that tend to induce recessions and market sell-offs. Price-earnings ratios, dividend rates, margin debt balances and many other benchmark marks of stock market valuation reached worrisome levels long ago. But in Cohen's view, these traditional measures have been of little use in gauging the progress of a market blessed by the rare combination of robust economic growth and anemic inflation.

The U.S. economy may have set a reassuringly steady pace in the 1990s, but the stock market has traced what Cohen calls a "staircase pattern"—a series of explosive upward thrusts bracketed by longer periods of sideward movement. From mid-January to late April, the Dow soared

It's Lonely at the Top

Recent Wall Street history is littered with the forecasts of market wizards who prematurely called a downturn. Through it all, Abby Joseph Cohen has remained steadfastly bullish. At some point, though, she'll have to call the top of the market.

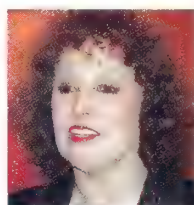


July 28, 1995
Dow at 4716
As the economy slows, Oppenheimer's **MICHAEL METZ** predicts an 11% market drop.

Nov. 10, 1995
Dow at 4870
COHEN predicts that stocks will rise again as the sluggish U.S. economy revives in 1996. "This economic cycle has a long way to go," she says.



May 7, 1996
Dow at 5421
BYRON WIEN of Morgan Stanley issues "The Coming 1000 Point Decline."



July 23, 1996
Dow at 5347
ELAINE GARZARELLI turns bearish, predicting a 15% to 25% drop.

Oct. 17, 1996
Dow at 6059
As the Dow breaks 6000, **COHEN** predicts another 1000-point rise. "This will be a long bull market."



Yearend 1996
Dow at 6561
CHARLES CLOUGH of Merrill Lynch urges a shift from stocks to bonds.

Apr. 10, 1997
Dow at 6800
After the Fed boosts rates, **COHEN** says "It's just a shot to ward off inflation."

DOW JONES INDUSTRIAL AVERAGE

aking 21%. In the last few
though, the market has
ed between 9000 and 9200.
; witnessing the formation
next stair step in the mar-
vance or the beginning of
d of the great 1990s bull
?

en's advice to investors at
ervous juncture can be
d up in a word: relax. Yes,
nowledges, the engine that
the stock market—corpo-
fits—has lost a bit of momentum; her prediction is that
panies in the Standard & Poor's 500-stock index will post
gain in earnings in 1998, compared with 10% last year.
hat matters most to investors right now is not the rate of
from year to year but the durability of the profit cycle,"
is Cohen, who sees earnings growth picking up later
ar and in 1999. The U.S. is the "supertanker" of the glob-

"It's said that the five scariest words about the market are 'This time it is different,'" Cohen says. "But sometimes it really is different"

al economy, Cohen says. "It
may not be the fastest ship,
but it's hard to knock off
course."

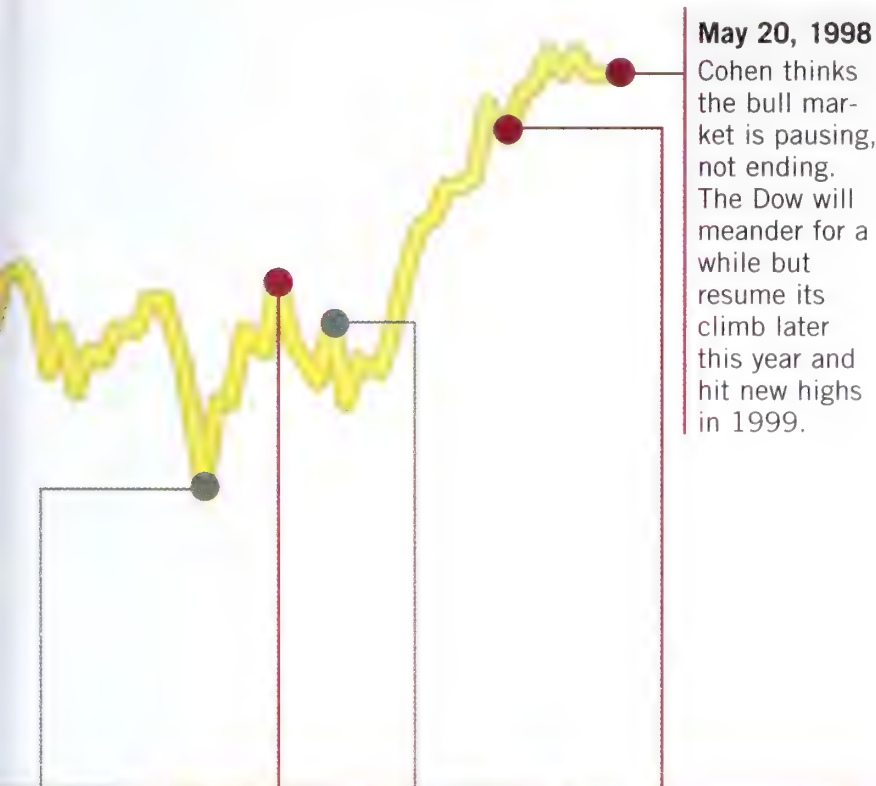
This view underpins a mod-
erately bullish stock market
outlook. Cohen sees the Dow
rising slightly from current lev-
els to about 9300 by the end of
1998 and continuing its ascent
next year. How high might the
market go? Cohen will not haz-
ard a 1999 prediction until lat-

er this year, but does say that at this advanced stage of the
bull market investors should expect annual returns of 8% to
10% instead of the 20% to 30% to which they've recently be-
come accustomed. The lesson of history is clear, she says:
Eventually this bull will turn into a bear. But Cohen does not
see this metamorphosis happening within her "forecast hori-
zon," which extends through the end of 1999.

Not everyone buys Cohen's bull-
ish case. In fact, some pundits ar-
gue that she and other so-called
New Paradigmists are leading in-
vestors up the garden path to a
stock market crash. Even Edward
Yardeni, chief economist of
Deutsche Morgan Grenfell and a
superbull throughout most of the
1990s, recently has parted compa-
ny with Cohen and begun fore-
casting a steep decline in corpo-
rate profits beginning next year.
"Abby has done a great job, but
with all due respect, now I dis-
agree," Yardeni says. "I think
Supertanker America becomes
Titanic America in 1999."

SENSIBLE SHOES. Events may
prove Cohen's upbeat forecast
wrong. But her only real short-
coming to date during this long
bull market is that she has con-
sistently underestimated—not
overestimated—the pace of its rise.
The Dow was about 6500 in late
1996 when Cohen predicted 7050
by the end of 1997. The market
actually closed the year at 7908,
exceeding Cohen's target by a
good 12%. Says Laszlo Birinyi Jr.,
of Birinyi Associates, who has been
more bullish in degree than Co-
hen: "Abby is a nice person and
all, but her reputation for walking
on water is overdone."

Cohen would be the first to
agree. From the demure business
suits and sensible shoes she wears,
to the grueling work schedule she
keeps, to the firm but measured
views she holds, Cohen has estab-
lished a reputation for profession-
alism that sets her apart from
many self-styled investment sages
of the past; she is the guru as anti-
guru. "It's not like I have a crystal
ball sending out signals," says Co-



May 20, 1998

Cohen thinks
the bull mar-
ket is pausing,
not ending.
The Dow will
meander for a
while but
resume its
climb later
this year and
hit new highs
in 1999.

Dec. 4, 1997
Dow at 8050

Forget Asia,
COHEN
advises. The
U.S. economy
is the world's
"supertanker."



7, 1997
at 7161

an
ey's
ON BIGGS
cts a bear
et amid
worries.



Dec 31, 1997
Dow at 7908
Deutsche Mor-
gan Grenfell's
ED YARDENI
predicts Abby's
"supertanker"
will sink in '99.

Mar. 18, 1998
Dow at 8775

COHEN fore-
casts 9300
in 1998,
citing the solid
fundamentals
of U.S.
companies.

Aside from her punishing work regimen, though, Cohen has little in common with the stereotypical Wall Street big shot. She lives with her husband, the director of employee and labor relations for Columbia University, and two teenage daughters in the same middle-class Queens neighborhood

tending as a girl. She moved back to Queens from Baltimore in 1983 to be near her recently widowed father, her only sister, and other relatives. "We are not a Wall Street family," says Cohen, who commutes to work by city bus. "A Wall Street career is not the end-all and be-all for us."

comments, "When I go home, I still have to do the cleaning and the laundry." And she means it. "I don't do it all, but I do quite a bit," Cohen says. "I actually like doing the laundry. It's cathartic."

Although Cohen travels relentlessly, she has been able to arrange her schedule so that she has missed very few major school events over the years. When needed, relatives have filled in. "It has been so nice to be able to call a grandfather or a grandmother, or an aunt or uncle," she says. "It has worked out wonderfully well to have family close by, even if it's just to have them come over on a Friday night and sit around and chat." Cohen also used to amuse herself on weekends with trips to the local bowling alley and billiards parlor but has had to give up both pastimes because of a neck injury four years ago.

A prolific speechmaker as well as television commentator, Cohen seems to enjoy the spotlight and has perfected the art of presenting erudite views to all sorts of audiences without condescending to any of them. Unflappably cheerful, she spices even her professional conversations with words like “funky,” “crummy,” and “stuff” and with playful, often facetious remarks. After recounting how she met her husband, Cohen said: “We got married after graduation. I was 12.” But that’s not legal, came the reply. “It is in Arkansas,” she retorted.

shrugged off the dire predictions of many commentators and urged investors to boost their investment in U.S. stocks. The Dow rebounded to post a 334-point gain that day and topped 8,000 within a few weeks.

While Cohen's sure grasp of economic fundamentals gives her an advantage over some other forecasters, Wall Street is filled with economists, and some of them possess what she does not—a PhD. By most accounts, however, Cohen tends to dig deeper in her research than does the average strategist, and she is ideally positioned to do so at Goldman, home to one of Wall Street's largest and most adept investment research staffs.

CRUCIAL EDGE. Assisted by Napolitano, a former high school math teacher turned Wall Street quant, Cohen even built her own projections of corporate earnings from scratch. Every quarter, the pair examine in detail every quarterly earnings report by every company in the S&P 500. This is an enormously laborious and time-consuming task, but Cohen feels it has given her a crucial edge in an era in which the rising frequency of outsized writeoffs and changes in accounting rules have complicated earnings forecasting more than ever before.

Then, too, Cohen has had healthy skepticism for investment dogma ever since she began her career in the mid-1970s as a research assistant at the Federal Reserve Board in Washington. “Parts of the economic model the Fed used had stopped working because they hadn’t been adapted to reflect changes that had taken place in the economy,” Cohen says. “This was a fabulous lesson to me to be flexible in my analysis and to look beyond the usual rules of thumb to the underlying dynamics.”

Applying this lesson in the mid-1990s, Cohen was among the first Wall Street forecasters to argue that what by historical standards were high P/E multiples were not excessive once adjusted for low inflation, surging returns on capital, and other unusually favorable economic trends.

Cohen's forecasting success is no less a function of what he does not do. Wall Street is crowded with pundits, all of whom have access to essentially the same data. In their desperation to be heard amid the din, many substitute showy writing or radical shifts of opinion for solid analysis. Throughout her career, Cohen has proven herself to be more interested in getting it right than in getting attention. "Ally doesn't change her mind just for the sake of changing her mind, which a lot of people do on Wall Street," says Linda Strumpf, chief investment officer of the Ford Foundation. "I have an enormous amount of admiration for her ability to stick to her guns."

The higher the market has risen, the more Cohen's resolve has been tested. By no means the only bull left on Wall Street, she is, however, the most prominent. Variouslabeled as the stock market's "icon" or "spiritual leader," Cohen knows that she will have to make the most important call in her career with the whole world watching. She allows that

BORN 1952, Queens, N.Y.

EDUCATION B.A. 1973, Cornell University: economics, computer science; M.S. 1976, George Washington University: economics.

FAMILY Married 25 years to David M. Cohen, director of labor and employee relations at Columbia University. Two daughters, ages 17 and 12.

WHEN HER ALARM RINGS 5 a.m.

ON TAKING THE CITY BUS TO WORK "It's fast, comfortable, and convenient. And I get to sit in the same seat every day."

'69 HIGH SCHOOL GRAD

NO. OF AIRLINE MILES SHE LOGGED IN 1997
125,000

NO. OF SPEECHES SHE GAVE 150

OFFICE EXERCISE EQUIPMENT Two 3-pound barbells

FAVORITE FAST FOOD Yogurt of any kind, any time.

ON WOMEN AND WORK "Every male CEO in the country should be required to have a working wife."



"Crowd Pleaser."



*"Sprint's Fridays Free
helps us reach more customers
and keep them happy."*

-Bob and Kitty Boyd
Boothbay Region Greenhouses
Boothbay Harbor, ME

Introducing

SPRINT'S SMALL BUSINESS

PERFORMANCE PLEDGE

*We pledge to work with you to
solve your business challenges
using the right mix of
products and proven tools from
recognized experts to help you
excel in critical areas such as:*

Ensuring Customer Satisfaction
Increasing Your Sales
Improving Employee Effectiveness

With Sprint's *Fridays Free*, Bob and Kitty Boyd are serving their customers better than ever, and now their business is thriving. Add to that *toll-free, local toll* and flexible *international calling plans* and you too can make your business blossom. What's more, we have valuable tools and advice to help you in:

- *Measuring customer satisfaction*
- *Enhancing customer relationships*
- *Growing your business internationally*

...and a whole lot more. Because Sprint not only delivers reliable business communications, but can actually *help grow your business*. So put our Small Business Performance Pledge behind you. Call today.

1-800-477-1406 www.sprint.com/pledge/



We help your business do more businessSM

*For \$50 monthly commitment level, minimum of \$50 required on days other than Fridays. Customers who do not meet the minimum requirement will be billed the difference to equal the minimum. Maximum of \$200 in free local toll and long distance calling on Fridays per month, per customer. For \$200, \$500, \$750 and \$2,000 monthly commitment levels, maximum of \$1,000 free usage. For \$4,000 monthly commitment level, maximum of \$2,000 free usage. Offer good for up to 110 consecutive Fridays total. Excludes SprintFAXSM and Sprint Conference LineSM services. Certain restrictions apply. Domestic calls and commercial use only. Limited-time offer. Not valid with any other offer. Promotion subject to change.

**Local toll service from Sprint may require dialing an access code in certain areas. ©1998 Sprint Communications Company L.P.

Cohen has been at her best when the market has been at its worst, often to dramatic effect

she may well err in her forecasting as this bull market nears its end but insists that it won't be because she lost her nerve or compromised her discipline. "I continue to sweat the details because I always want to give clients the right analysis for the right reasons," she says. "But I don't feel any more pressure to be right than I ever did."

Without exception, Cohen's friends and clients say they have seen nothing to indicate that she is buckling under stress or that success has gone to her head. "Abby is a courageous person, but it goes deeper than that. She has inner peace in a world of turmoil," says Martin L. Liebowitz, chief investment officer of Teachers Insurance & Annuity Assn.-College Retirement Equities Fund (TIAA-CREF). "It is an interesting question how a person like that is formed."

Like many noteworthy Americans, Cohen is the child of immigrants. Although she describes herself as "a first-generation American," only her mother, née Shirley Silverstein, was born abroad. Silverstein left her native Poland with her parents in the 1920s and resettled in Brooklyn. Cohen's father, Raymond Joseph, was born in Brooklyn in 1913, to recently arrived Polish immigrants. Bright and industrious, Joseph earned two degrees, including a master's in finance from New York University, while working full-time. In 1946, he married Silverstein, who had graduated from Brooklyn College.

The Josephs soon moved to Queens and a newly built, bustling neighborhood of single-family homes and quality public schools. They began as a two-career couple. Mr. Joseph worked as an accountant with the firm of J.K. Lasser, now part of Deloitte & Touche, and Mrs. Joseph was employed in the controller's office at General Foods Co. But in 1948, after the birth of her first child, she left General Foods and became a full-time housewife and mother. Not long after Abby was born in 1952, Mrs. Joseph founded a summer camp for the neighborhood kids.

Raymond Joseph soldiered on at Lasser until the late 1960s, when his career took an unusual twist. Joseph, who had developed a specialty in publishing-company accounting, took a job as controller with one of his best clients, *Essence*, the African-American monthly. Says Cohen: "In our family, we call him 'the sweetest man.' My father has the loveliest disposition and is extremely open-minded. He was just so attracted by the enthusiasm of the *Essence* people." Napolitano says that Abby and her father have strikingly similar temperaments: "They both have the same calm, even-tempered approach to life."

Abby Joseph came of age during the 1960s but was not defined by that turbulent era. "I felt no need to rebel at all," she says. "My parents were very aware of the times and willing to bend." At Martin Van Buren High School, Abby participated in a half-dozen extracurricular activities, was elected

"girl leader" of the honor society, and ranked 12th in the graduating class of 1,636. Her forte was the natural sciences (she won two Future Scientists of America awards), plus the hope in her parents that she would become a doctor.

Young Abby may have been a straight arrow, but by no means was she docile—thanks mostly, she says, to her mother. "My mother was a very bright and opinionated woman who studied a situation, made her mind up, and then proceeded," she says. "Like her, I am willing to go against conventional wisdom. If I've done my homework and I believe that I'm right, I really don't care if people agree with me or not."

In 1969, Joseph enrolled at Cornell University, one of the few Ivy League colleges that admitted women at the time. Even so, women were in the minority at Cornell,

Cohen made herself even more conspicuous by her choice of studies. She was a physics major until she discovered economics and then fledgling economics and a fledgling field of computer science, a male bastion that never there was one. In her junior year, Joseph signed up for a graduate-level computer science course. At the end of the first class, the professor told her to return because she was not in engineering, not a grad student, and not a man. She ignored him. "I was no computer geek, but I was just as good as anyone else," she says. "I made



"Mommy, look! It's Abby Joseph Cohen!"

it my business to finish that class."

"SIREN CALL." As soon as she graduated from Cornell in 1973, Joseph married David M. Cohen, a labor relations major she had met in freshman economics and dated throughout college. The Cohens moved to Washington, where David attended law school and Abby worked on a master's in economics at George Washington University while working full time at the Fed as an assistant to Ben E. Laden in the research division. "She was impressive technically and had a very strong intellectual capacity," Laden recalls.

After getting her master's degree, Cohen considered pursuing a PhD in economics but realized that her budding interest in the financial markets was more practical than theoretical. In 1976, Cohen left the Fed's cloistered halls for Rowe Price Associates Inc., the Baltimore-based mutual fund company. Laden had joined T. Rowe as chief economist, and Cohen was his first choice as a second economist. In her seven years in Baltimore, Cohen not only was schooled in economic forecasting but also helped build econometric models to help securities analysts forecast demand in the semiconductor and other high-tech industries.

In 1980, Cohen gave birth to her first child. She did not ponder long before going the working-mom route. "The climate had changed since my mother's day," Cohen explains. "She was content with her choice, but I still wonder how it could have gone." (Shirley Joseph died in 1982, after a long illness.)

In 1983, Cohen "answered the siren call of Wall Street" by joining Drexel Burnham Lambert Inc. as a portfolio strategist.

Cover Story



was 31 years old, and the first of the baby-boomer bull markets was just coming into its strength. "I loved the strategy right away," she recalls. "Everybody in this business has a view on the markets. Now I got to spend my entire working on mine."

By all accounts, she thrived at Drexel Burnham, which was two firms in uneasy combination: Michael R. Milken's junk-bond money machine in Beverly Hills and a fine, old-line brokerage in Manhattan. Drexel rewarded Cohen with a promotion to chief strategist in mid-1987—just in time for the onset of Black Monday.

Cohen and Richard Hoey, Drexel's chief economist, had been consistently bullish throughout the stock market's ascent. In August, they and the other members of Drexel's investment policy committee began debating whether stocks were overvalued. The consensus view, which Cohen shared, was that the market was indeed a bit frothy but that because there was no threat of recession, any correction would be mild and short-lived. They got the short-lived part right. On September 19, the Dow fell by 508 points, or 22.6%, the biggest one-day drop ever.

But if Cohen failed to alert her clients to the downturn, she made it up to them on the upswing. By her analysis, stocks were a good 15% undervalued. Hoey concurred, in part because he thought falling interest rates would lift bond prices. Early the next morning, Drexel advised its clients to use all available cash to buy stocks and bonds in equal measure. It was a gutsy, prophetic call that left Cohen both exhilarated and humbled. "The experience showed that my kit was missing a tool," she says. The crash, she believes, had been precipitated not by any sudden change in the economic fundamentals but by structural defects in the financial markets themselves. "This is an aspect of risk that I've paid more attention to ever since," Cohen says.

Enfeebled by a massive fraud case brought by the Justice Dept., Drexel Burnham collapsed into bankruptcy in early 1990. Cohen unwisely took the path of least resistance, joining 40 of her colleagues in Drexel's research department

TEAMWORK

Napolitano and Cohen build forecasts by poring over every quarterly report of every S&P 500 company

Goldman has few peers as a stockbroker to institutions, and its market-strategist post arguably was the most prestigious on the Street. Leon Cooperman, who had created the position in the mid-1970s, was named best strategist in the *Institutional Investor* poll nine years running. He was succeeded by Steven G. Einhorn. Like Cooperman, Einhorn was a rigorously analytical thinker focused on the economic fundamentals of investing. Einhorn, who was familiar with Cohen's work at Drexel, saw her as a kindred spirit. "Whether consciously or not, you are attracted to people who approach markets in the same way you do yourself," Einhorn says. "We thought she would be the best fit."

Even so, Cohen had to serve what amounted to a prolonged apprenticeship. Einhorn had just been promoted to global research chief but continued to act as chief U.S. strategist for three to four years after hiring Cohen as his successor. Officially, Cohen and Einhorn were co-heads of Goldman's investment committee. But Einhorn acknowledges that he retained sole authority to alter the firm's model portfolios and also continued to take the lead in publicizing Goldman's market views.

As a newcomer to Goldman, a proudly self-contained and conservative firm, Cohen was expected to crawl before she was allowed to walk. But she didn't help her cause by getting off to a shaky start. When Cohen joined Goldman in October,

who went to work at Barclays de Zoete Wedd (BZT), a London-based merchant bank. But BZW's push into U.S. equities quickly foundered, and Cohen put herself back on the job market within a few months of joining the firm. In leaving BZW for Goldman Sachs in the fall of 1990, she salvaged golden opportunity from career mishap.

Cover Story

both she and Einhorn were bearish. But the Dow bottomed out during Cohen's first week on the job and had climbed 13% by the time Goldman moved into the bull camp in early February. Einhorn and Cohen recall that they were in agreement on the shift. But, according to one well-placed Goldman source, Cohen went along reluctantly: "Abby was still so bearish she couldn't see straight."

Cover Story

In addition, some of Goldman's investing clients were disappointed at first by Cohen's reports, which were at once narrower in scope and yet lacking the detail of Einhorn's. Cohen did not even rate a mention in the *Institutional Investor* poll until 1993, when she was one of four runners-up to the five "All Americans," one of whom was Einhorn.

All the while, though, Cohen was laying the groundwork for her leap to prominence in a series of prescient reports and speeches. In 1992, Cohen had an epiphany of sorts as she played with a wad of Silly Putty that her younger daughter had left near her desk. Cohen pressed the stuff onto a pencil-drawing of the standard boom-and-bust business cycle, which looks like the letter S resting on its side. The S was transferred to the Silly Putty, which she stretched horizontally. It struck her that this elongated image foretold the future: a long, rolling wave of muted and thus sustainable profit growth—and a gloriously protracted bull market.

In early 1993, Cohen seemed to suffer her only bout of skittishness. After President Clinton's first State of the Union address, Einhorn and Cohen issued a downbeat assessment of the economic impact of Clinton's budget proposals and urged investors to scale back their stock market exposure, to 55% from 70%. However, Cohen says now that it was Einhorn who flinched, not her. "Steve was very concerned at the time, but I was not," she says. Einhorn says that he did indeed instigate the change in the model portfolio.

Cohen kept the faith throughout the market's 10.7% correction in the spring of 1994 and became even more bullish during another sharp dip in the fall, amid fears that inflation would resurge and drive up interest rates. Convinced that the stock market now was significantly undervalued, Cohen went to Einhorn and argued that it was time to take a more bullish stance. This time, Einhorn deferred to his co-strategist in what amounted to a belated passing of the torch.

Cohen thrived in her new role as chief strategist. By late 1996, as Steve Wagshal witnessed, Cohen's standing was such that her views—even rumors of her views—were moving the market. However, in the judgment of Goldman Sachs's partners, she had not demonstrated that she deserved admission to their select circle. To the surprise and dismay of many of Cohen's clients, she was not among

the new partners Goldman elected in the fall of 1996.

The last of investment banking's great private partnerships, Goldman long has set lofty barriers to ownership. Today the firm has 11,000 employees but only 190 of them are thought to be partners. (The latter figure has been widely published, but Goldman will neither confirm nor deny it.) This select group receives 76% of the firm's pretax profits, which in 1997 amounted to a staggering \$3 billion. Every two years, the partners meet to choose new partners; the next election is scheduled for October.

PARTNER PENDING? Cohen's star shines much more brightly than it did two years ago. Indeed, Goldman now is probably best known to the average investor as "Abby Cohen's firm." While her celebrity has raised hackles at a storied investment bank that has produced Treasury Secretary Robert E. Rubin and a long line of other grandees, the firm's senior executives seem to have jumped aboard the Cohen bandwagon on both feet. In recent months, Goldman has featured her as keynote speaker at many events, from the opening of a new branch office in Atlanta to a hush-hush conference in



A prolific speechmaker and commentator, Cohen has perfected the art of presenting erudite views to all sorts of audiences

Middle East. Says CEO Corzine: "Abby is an incredible professional strategist who enhances our position in the financial marketplace and also gives us a sense of confidence internally about our strategies."

Corzine won't comment on Cohen's prospects for partnership. But insiders say that Cohen is a lock in the next election—if there is one, that is. Says one of her senior colleagues: "Abby is so bright and so famous now that the only way she doesn't make partner in October is if the firm goes public first—or the stock market crashes."

Cohen's friends and associates say that while she would love to be admitted to Goldman's lucrative partnership, she is on Wall Street more for the intellectual challenge



{ IBM Electronic Commerce software tools can extend your business to the Web to
increase sales and enhance customer service – as they did for Chelsea Football Club.

IBM, the e-business logo and Solutions for a small planet are trademarks of International Business Machines Corporation in the United States and/or other countries © 1998 IBM Corp. All rights reserved



How many Web businesses do you see? Chances are you guessed

low. Because whether you manage sporting events or make athletic gear, we can help you quickly

open your business on the Web. IBM's Electronic Commerce solutions are the low-cost, low-hassle

and secure way to reach new markets, generate new revenue and serve your customers around

the clock. Plus, our open, packaged solutions scale up with ease, so you can start simple. And

grow fast. Read all about it in "Capitalizing on the e-commerce

Opportunity." Your free copy is waiting at www.software.ibm.com/eec



Solutions for a small planet

of forecasting the markets than for the money. "Not everyone who is a media star in this business is who they seem to be, but Abby is the real thing," says former Drexel colleague Dick Hoey, now chief economist at Dreyfus Corp. "What's most important to her is the work itself. She's got the attitude of a craftsman."

Cover Story

dicted that small-cap stocks would outperform blue chips, and she has made poorly timed recommendations to put money in commodities. But even when Cohen has been wrong, she has made her case insightfully. "Abby does not have to be right on the market to be of great value to me," says the Ford

Cohen's craftsmanship has not been flawless. More than once, she has errantly pre-

Foundation's Strumpf, who has been a client of Cohen's for years. "I can't imagine ever not wanting to know what she's thinking." And surely investors who have taken Cohen's advice and have remained in the market through thick and thin have profited hugely.

In her spare time, such as it is, Cohen has taught finance seminars at Cornell, Wharton, Harvard, Dartmouth, and other top business schools and found the classroom much to her liking. After she delivered a lecture at Cornell University, the acting dean of the business school in all seriousness offered Cohen a job on the spot. Cohen turned him down, but says that she can envision leaving Wall Street one day for academia. Not now, though. "I'm having too much fun to even think about it," she says. And, besides, there is a market that may again need lifting any day now.

'I CANNOT ENVISION DOING A 180-DEGREE TURN'

What would it take to turn Abby Joseph Cohen, Wall Street's staunchest stock market bull, into a bear? Her answer: "Deteriorating fundamentals"—notably, a "significant" increase in inflation or decrease in corporate profits. She won't be any more specific, but Goldman, Sachs & Co.'s chief market strategist still expects the fundamentals to improve before the inevitable decline sets in, even though many investors are feeling faint right now. "After each step up in the market, people feel worse than before because you're at a higher level and have further to fall," she says.

As she surveys the investment landscape, Cohen keeps an eagle eye trained on the U.S. inflation rate. A dramatic upturn would be "especially troubling," she says, but adds that she sees no cause for concern as of now—a view she apparently shares with Fed Chairman Alan Greenspan. Despite worries in some quarters about rising labor costs, the Fed's Open Market Committee opted on May 19 not to boost interest rates. **"RIGHT ON TARGET."** Even so, Cohen has factored a modest rise in interest rates into her second-half outlook. "There are no significant inflationary pressures," she says, "but the Fed wants to send a signal that they are being careful." She sees a parallel to early 1997, when the stock market weakened in anticipation of a Fed rate hike but rallied after it was implemented.

Cohen is no less fixated on corpo-

rate earnings. She sees a modest 8% rise in 1998 operating earnings, to \$50.50 per share on average for the companies in the Standard & Poor's 500-stock index. "We've been assuming that the year would start off at a moderate pace and get somewhat stronger in the second half," she says. Based on preliminary data, Goldman is estimating that first-quarter earnings were up about 5% to 6%. "We think we're right on target," she says.

Cohen expects the second-half acceleration in earnings to carry into 1999. Her official estimate for S&P 500 earnings growth in '99 is 9%, but she concedes this is largely symbolic. "All we're really trying to convey at this point is that we believe 1999 will be another year of profit growth."

In Cohen's view, the added impetus will come from energy, chemicals, paper, and other major industries that have been trailing the S&P average because of exposure to foreign economies notably weaker than the U.S. economy. But over the next year, Cohen expects demand for U.S. goods abroad to pick up, even allowing for the economic disarray now spreading through Asia.

The wild card, in her view, is

Japan, the world's second-largest economy. Cohen says she has spent a lot of time conferring with Kathy Matsui, Goldman's chief strategist in Tokyo, and with Goldman analysts who follow U.S. companies doing business in Japan. "Our view of Japan is not as gloomy as some," Cohen says. "We don't see this wonderful turnaround, but we do think

that conditions will stop getting worse" as the government's recent moves to stimulate the economy take hold. In the meantime, she adds, Japan's weakest sectors—construction, for one—are domestic industries to which U.S. companies have scant exposure.

In Cohen's view, the bull market will likely last at least through 1999 but must die one day. Come what may, she says that she will

not be flashing any "sell-all-stocks" commands. "I cannot envision doing a 180-degree turn, because that's just not the way the world works," she says. Instead, expect Cohen to reduce the stock market weighting in Goldman's model portfolio from the current 65% to 60% to 55% and so on, easing into bearishness as she eased into bullishness seven years and nearly 6,000 Dow points ago.

By Anthony Bianco in New York

WHY ABBY COHEN IS STILL BULLISH

- ◆ Earnings will rise 8% in 1998 and even more next year
- ◆ Japan's foundering economy will stabilize
- ◆ Revival in growth abroad will spur lagging U.S. industries
- ◆ Impending Fed rate hike will help keep inflation low

Cohen sees no cause for concern on the inflation front—a view she apparently shares with Fed Chairman Alan Greenspan

UH-OH. YOU MIGHT LIVE A REALLY LONG TIME!

Advances in healthcare deliver wonderful results.

But where are the innovative financial planning and products to help you enjoy a secure, longer life?

Self propelled.

Right here, at The Equitable. Our revolutionary family of annuities includes unique income distribution features to help ensure that you won't run out of money, no matter how long you live. Our *Financial Fitness Profile*® planning process helps clients win independence at each of life's stages. And, The Equitable is a member of the Global AXA Group, one of the world's largest, strongest and most innovative financial services organizations — with over \$500 billion* in assets under management. To learn more, call 1-800-590-5995 or visit us at www.equitable.com.

EQUITABLE

Member of the Global  Group

TAX-HAVEN WHIZ OR ROGUE BANKER?

Marc Harris' doings in Panama are raising eyebrows

Psst! Are you an American citizen? Want to take your hard-earned savings overseas, out of the reach of tax authorities, pesky ex-spouses, or malpractice lawsuits? Just open an offshore account with The Firm of Marc M. Harris. You can do it all by fax or the Internet, where Harris solicits high rollers through his elaborate Web sites (www.marc-harris.com and www.escapeartist.com). Or open your account in person, and you'll be met at the Panama City airport by a chauffeured Jaguar and swept downtown for a heady introduction to the exotic world of offshore trusts, foundations, and second passports from countries such as Argentina, which Harris will help you obtain.

Sitting in his fifth-floor offices in a Panama City high-rise, Harris, an immaculately groomed 33-year-old ex-American citizen, says that 80% of his "several thousand" clients are Americans or Canadians. Harris claims his firm has \$35 million in capital and \$1 billion under management in various trusts and investments. Although he's a minor player among offshore tax-service firms, Harris has been raising his profile. He says his clients want to protect their assets from America's "litigation nightmare" or have had run-ins with the Internal Revenue Service. He insists that he is just helping people legally avoid U.S. taxes.

In a three-hour interview with *BUSINESS WEEK*, however, Harris was reluctant to provide much information. Asked for performance data about his various investment opportunities, he declined. He considers them private offerings that are not usually made public. Why doesn't he use an international accounting firm, as most offshore operators do? He says he has a Panamanian accountant. And his firm has accounts with "major American international financial institutions," including one with Salomon Smith Barney.

A sophisticated marketeer, Harris has positioned himself at the intersection of two major trends. The huge popularity of the Internet is allowing aggressive

offshore operators to reach a whole new universe of gullible U.S. investors. And the offshore world is booming: Philippe Gelin, who heads Shorex Ltd., a London organizer of offshore financial conferences, estimates that offshore holdings total some \$5 trillion and are growing 20% a year. Much of this activity is legitimate. Companies and individuals use offshore centers such as Bermuda and Ireland to reduce taxes and labor costs.

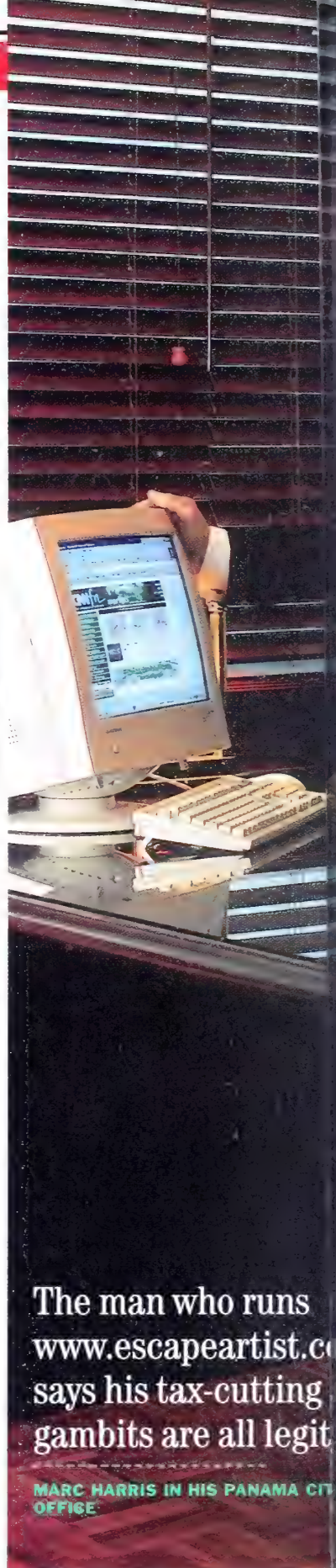
Yet "offshore" also refers to a shadowy world where geographic boundaries and regulations barely exist and few things are what they appear to be. "We've seen an increase in the use of foreign and domestic trusts as a method to evade taxes," says Dennis Crawford, IRS director of national operations for criminal investigation. "It's more and more of a problem."

In the past year, Harris has made quite a splash in the offshore world, appearing at major offshore conferences. But a close look at Harris raises questions about him and his companies:

- The key to the Harris Organisation, which includes at least 29 separate Harris companies, is its ability to operate virtually free of regulation. Although Harris firms set up banks and investment funds and provide trust services for American clients, they are not regulated by Panamanian officials, nor are they directly overseen by U.S. regulators. Many of Harris' financial entities are domiciled in such lightly regulated countries as Nevis, a Caribbean island with 10,000 people.

- Harris has had run-ins with some regulators. On Dec. 17, 1990, Florida suspended his certified public accountant license for various accounting "violations," according to a final order from the state's Professional Regulation Dept. That same year, two Harris banks in Montserrat were shut down by British regulators cleaning up a bank scandal on that island, say regulators from the U.S. and Britain.

- Former employees are critical of Harris and are involved in lawsuits with



The man who runs
www.escapeartist.com
says his tax-cutting
gambits are all legit

MARC HARRIS IN HIS PANAMA CITY
OFFICE



him. Three say Harris made unauthorized use of his clients' funds. "I could not get information on how much there was in assets or where those assets were held," says an ex-employee.

■ On Apr. 6, Harris filed a \$30 million libel lawsuit in U.S. District Court in Miami against David Marchant, the publisher of the Miami-based *Offshore Alert* newsletter, who also does investigative research for clients. In the complaint, Harris claims Marchant's Mar. 31 article falsely stated that Harris' organization was an insolvent Ponzi scheme and that some clients are unable to withdraw their money.

■ At least two international banks in Panama have closed a number of Harris company bank accounts, say Panama banking and legal sources. Harris confirms the accounts were closed, blaming negative publicity.

■ Harris is now flouting U.S. law that prohibits U.S. citizens from making investments in Cuba: His Cuba Web site offers Americans just that.

In the *BUSINESS WEEK* interview, Harris, accompanied by a lawyer, security chief, and spokesman, insisted that he is a legitimate offshore investment manager who performs well for clients, offering customized solutions to protect their assets. Harris denies he misuses client funds. He says he is the target of a "massive smear campaign" by unidentified enemies and senior ex-employees. He says charges of insolvency are "absolute nonsense": Any delays clients may have had in receiving their money are due not to a cash shortfall but to the illiquid nature of their investments. Says Columbus (Ohio) attorney A.C. Strip, whom Harris just hired: "I am at this point relatively comfortable that he is not insolvent based on the in-house financial statements. I am awaiting audited statements."

Harris says he thoroughly researches clients to ensure they are not laundering profits from

drug trafficking. And if Americans take his advice and form offshore corporations to invest in Cuba, that's "entirely their decision," he says. Yet a senior U.S. Treasury Dept. official says such moves are illegal: "Even if you interpose a third-country company, it's the same as going into Cuba directly."

Harris is dismissive of newsletter editor Marchant. "We doubt Mr. Marchant's journalistic credentials," he says. Marchant says he can prove everything he reported. "It is common for people I expose to attack my credentials," says Marchant, who brushes off the lawsuit. "Being savaged by Marc Harris is like being savaged by a dead sheep."

Marc Matthew Harris is one of the

HARRIS' RISING PROFILE

1984 Harris graduates summa cum laude from North Carolina Wesleyan College at 18.

1985 Graduates from Columbia business school. Gets CPA license in Florida.

1985 Starts own business in Florida.

1989 Harris leaves the U.S. and launches his firm in Panama. Later renounces U.S. citizenship.

1990 Two banks owned by Harris in Montserrat are shut down by British regulators as part of a larger bank scandal.

1990 Florida suspends Harris' CPA license for violating accounting rules.

1995 Buys a Panamanian trust company. Former owner of company buys it back due to concerns about improper handling of client monies.

1997 Harris raises his profile, speaking at offshore fund conferences.

1998 Harris sues Miami newsletter publisher for stating Harris companies are insolvent.

more flamboyant offshore operators around. He graduated from North Carolina Wesleyan College at 18, got his CPA, then earned an MBA from Columbia University in 1985. After a few months at a Florida accounting firm, he launched his current organization in Miami with a \$5,000 advance on his Visa card in December, 1985, according to a self-published book in Spanish titled *The Intellectual Spirit of Marc M. Harris*.

TWO HATS. His first bouts with authorities came after he issued an accounting compilation, similar to an audit, for MMH Equity Fund Inc. The compilation did not disclose that Harris was an officer and director of the fund, according to the Florida order. Harris "did not comply with applicable generally accepted auditing standards" and "failed to exercise professional competence," says a related complaint. He hasn't returned to the U.S. since then, so his CPA license remains suspended, says June Carol at Florida's Professional Regulation Dept. Harris says losing his license "hasn't affected my career."

Harris then obtained two bank licenses from the government of Montserrat. His intermediary was Jerome Schneider, another offshore promoter, who

DATA BUSINESS WEEK

helped set up as many as 200 Montserrat banks in the 1980s, say two regulators. The banks collected deposits from Americans without dispensing promised loans. "Many of the victims were retired Americans or other people on low incomes," says a U.S. regulator.

British authorities who oversee Montserrat eventually shut down the banks, including Harris' Allied Reserve Bank and Fidelity Overseas Bank. The U.S. regulator says Harris "used these two bank names in generating customer accounts, and they weren't engaging in legitimate banking." But because of regulatory loopholes and the reluctance of victims to come forward, Harris and Schneider were not charged with wrongdoing. Harris says he was involved in the formation of various offshore banks but was not involved in their operation. This issue is part of Harris' suit against Marchant. Schneider says he only helped Harris fill out the application forms.

Harris left the U.S. in 1989 because, he says, he was so disgusted by what he calls IRS "abuses" and "persecution." He later renounced his U.S. citizenship and became a naturalized citizen of Panama, where he opened his business. Eager to associate with a local entity able to set up offshore trusts, Harris bought Trust Services from Briton Robin Baily in 1995. Baily, who is godfather to Harris' eldest child, and Derek Sambrook, a former British regulator, stayed on to work for Harris.

SECOND THOUGHTS. But in January, 1997, the two sent Harris a memo saying he had disregarded basic rules of the trust business: segregating clients' money and getting clients' permission before using their assets as collateral for margin loans. "There are but two issues to be addressed, namely, commingling of client funds and unauthorized use of client funds," the memo said. "It is not recommended that you encourage loans of client monies to The Firm." When Harris disregarded them, they bought the company back. The two declined to comment for the record. Says Harris: "We 100% believe that we are in compliance with the rules."

Loss of the trust company hasn't slowed him, though. His 150 employees include a dozen well-compensated expatriates. Harris, who owns several Jaguars and wears gold cuff links and

Hermès ties, says he pays himself \$1 million a year. Harris' wife and three children live in Chile, where he has a second home.

Harris has a knack for raising money on the Internet. For two years, his Web sites have generated half of his new account inquiries. Yet investors seem to ignore potential red flags, such as Harris' links to other sites that sell African passports, fake college diplomas, and a book called *Confessions of an Unrepentant Con Man*. Harris, who calls himself a right-wing libertarian, says he's merely giving people choices.

"Being savaged by Marc Harris is like being savaged by a dead sheep"

HARRIS IS SUING NEWSLETTER EDITOR DAVID MARCHANT



Harris insists he is not trying to help folks illegally evade taxes. But an attendee of two Harris seminars, Jay Adkisson, an Oklahoma City tax lawyer, says Harris explicitly promoted tax evasion. He says Harris "starts with the premise: We're going to evade taxes. No. 2, we're going to make this so smooth that while we're evading taxes, we don't get caught." Adkisson sets up offshore trusts to protect clients from future creditors, not the IRS.

Harris' scheme, says Adkisson, is for clients to move assets offshore to avoid taxes yet still retain control over those assets. Harris recommends setting up what he refers to as "the octopus," says Adkisson. Its head is a Panamanian foundation, an amorphous legal entity where neither the owner of the assets nor his beneficiaries' names need be disclosed. The foundation creates a tangle of companies—banks, leasing companies, insurance firms—in other offshore havens that appear to be unrelated. They then bill the client for various ex-

penses. The client pays the invoice to offshore entities, then deducts the payments as business expenses on his return. To the IRS, it appears that the client has been billed by many unrelated third parties, says Adkisson. Under offshore secrecy laws, the IRS can't determine whether the entities the octopus controls are really controlled by the same person.

Harris clients, though, face big risks. If the foundation invests its money in one of Harris' investment funds, there's no regulatory oversight. And clients are being hauled in for tax evasion. U.S.

law requires its citizens to pay taxes on income wherever it is earned, including income from offshore trusts or foundations. Harris claims the octopus technique is "consistent with the same techniques" used by U.S. asset-protection professionals. Yet Barry S. Engel, an Aspen, Colo. tax attorney and a former head of the Offshore Institute, a 30-member professional organization, says: "The one thing that structure does for you is send somebody to jail if they get caught."

TIGHTER LAW. Panama is beefing up its regulations. A securities law, to be enacted later this year, would require all companies offering financial investment services in Panama, including Harris' firm, to register and be rigorously regulated. Finance & Treasury Minister Miguel Heras Castro says the government is determined to supervise close groups such as Harris' to improve Panama's reputation as a legitimate offshore center. "If you want to run a fly-by-night operation, you can do that anywhere in the world," says Heras. "But it's not in our best interest to be used as a platform like this."

Harris says if regulation in Panama becomes too strict, he'll simply move to another tax haven: "If I have to get a [securities] license, I might decide the operations shouldn't be in Panama [any longer]." Going back to the U.S. isn't an option: Harris claims he's no longer eligible for a U.S. visa. But he says that "it's not my desire to go back. Plus, every day I travel in the U.S., I'm theoretically liable to pay tax." For the former American, that would be outside the question.

By Leah Nathans Spiro in New York and Geri Smith in Panama City



MAGNIFICA

With Magnifica Class, Alitalia raises the standard of flying to a fine art.

Alitalia, the world's premier airline to Italy, presents Magnifica Class. A masterpiece of style and service that reflects the very best of Italy. Outstanding cuisine and superb wines served with the warmth and friendliness that could only come from people who have turned living into an art form. Every detail in Magnifica is first class, from our luxurious, leather-trimmed seats to our award-winning, five-star meals

and international wine selection. Best of all, your Magnifica Class flight to Italy, including chauffeur-driven transfers in Rome and Milan, costs the same as a business class ticket. Alitalia offers superior service to 135 cities in 63 countries worldwide, so whatever your travel plans, call 800-223-5730 or visit our website at www.magnifica.com for more information. **MAGNIFICA CLASS. THE BEST OF ITALY.**



Alitalia participates in the frequent flier programs of Continental and US Airways. Newark flights operate in partnership with Continental Airlines and feature BusinessFirst™ service.

Alitalia

A LUXURY PAD —AND IT FLOATS

Are apartments at sea an idea whose time has come?

HOME FOR SALE: LUXURIES GALORE

See the world—Venice, Cannes, Sydney, Bangkok. Stunning water views. Private terrace w/whirlpool. Helicopter landing pad. Fully furn.; full kitchen. Golf Academy w/pro. Stockbroker on brd. 2,436 SF. annual maint.: \$128,100-\$271,800. Asking: \$2.9-\$4.9 million.

The ad is not real, but the information it contains is. Any multimillionaire can get a home with swimming pool, jogging path, tennis courts, a whirlpool, even a driving range. But now, they can buy a home with all those amenities, plus one very unique feature: It all floats. Following the sun, their three-bedroom home stops only at the most exclusive locales, sampling events such as Carnival in Rio, opera season in Rome, the Cannes Film Festival, and the Grand Prix in Monaco.

Armed only with glossy brochures, a video, and a \$10,500 brass model of the ship, to be called The World of ResidenSea, Bahamas-based ResidenSea Ltd. has managed to sell 62 of 286 units worth almost \$120 million, in 10 months. The company says an additional 18 units worth \$47 million are reserved with a \$5,000 deposit. "It's amazing that we've been able to sell \$120 million worth in 10 months with something that was just on paper," marvels ResidenSea's CEO, Frédy M. Dellis. "It shows the force of the concept." The firm has hired Christie's Great Estates to market the ship.

The project and the prices may seem over the top—what's next, floating polo fields? But in the booming cruise indus-

try, apartments at sea may be an idea whose time has come. While the ResidenSea project is "unique, there are other people actively contemplating taking a luxury ship and converting it to condominium and possibly hotel usage," says David Seaman of Coopers & Lybrand LLP's real estate advisory services group. As cruise lines build more capacity, he says, they are be-

ing built, but ResidenSea recently signed a contract for construction of the \$500 million vessel and plans to do an initial public offering for \$190 million on the Oslo stock exchange soon. It still needs \$100 million debt commitment to add \$275 million lined up. If it doesn't get its financing in order by July 1, the project may be delayed or even canceled. If all goes well, the ship should be completed by May, 2001.

BRAINCHILD. Once millionaires have moved from \$1.5 to \$6.6 million for their aquatic palaces, they face stiff maintenance costs—which start at \$61,500 a year for a 1,105-square-foot unit and as high as \$271,800 for a 2,436-square-foot home. After focusing on the United States and Northern European markets, ResidenSea is now marketing in South America, and plans to reach Asia and the Middle East—although Asia's economic turmoil may curb those plans. Those with less than \$5 million in net worth are not apply, says ResidenSea.



MODEL SHIP: The millionaires plunking down deposits hope for a May, 2001, launch

ing more creative in the ways they sell that capacity.

ResidenSea will disclose the average age—55—of the buyers, but it won't reveal much more. The company's outside lawyer, William J. Honan, of the New York office of Haight Gardner Holland & Knight, has handled at least 30 of the 62 sales and gone over the escrow accounts with escrow agent Chase Manhattan Bank, but says confidentiality agreements preclude revealing the names of their well-heeled customers.

How is The World shaping up? The 958-foot, 86,000-ton ship is not yet be-

ResidenSea is the brainchild of Klaus Kloster Jr., whose father founded Norwegian Caribbean Line, which eventually became Norwegian Cruise Line. Other shareholders include Norwegian shipping magnates, Norwegian airline Braathens SAFE, and the biggest operator of buses in Norway. The name Kloster has long been associated with innovation in cruising. Kloster Sr. has been trying to bring a ship, now called America World City, to the market for more than a decade. Difficulty lining up financing for the "city-ship" which will house three hotel towers and a three-level "downtown," has hamstrung



The fact that Microsoft
has lightning fast
Internet access shouldn't
surprise you.

Neither should the fact
that MCI provides it.

When Microsoft needed to be faster, they

called MCI. Microsoft's family of Web sites are among the most popular on the Internet. And when that popularity led to heavy traffic, Microsoft turned to MCI. We installed a groundbreaking custom OC-12 pipeline—the first commercial connection to provide high-speed access to the Internet, at an unparalleled 622 MBPS. This is 13 times faster than the standard high-speed connection. As a result, Microsoft now moves 11 trillion bytes of data per week. And traffic is doubling every six months. So even this big company has room to grow. To find out how MCI can help manage your Internet and data needs, visit www.mci.com/data.

data



the project. While New York-based World City Corp. has \$100 million in equity commitments from Westin Hotels & Resorts and a casino company, it still awaits approval of a \$1 billion guarantee from a federal government loan guarantee program which supports U.S. ship-building.

Buyers of ResidenSea homes shouldn't expect their investment to appreciate, warns ResidenSea. And they don't really own their homes like condo owners do. The company structured documents to resemble condo agreements, but residents are buying a 50-year lease. They can sell or sublease units, but the shipowner has the right of first refusal. **"OUT OF WHACK."** They're also paying an unparalleled level of maintenance fees—for, as ResidenSea notes, an unparalleled level of service. Maintenance equals about 5% to 6% of the purchase price. Even one broker who is selling the project calls the fees "out of whack." If there are defaults, the others may have to pick up the shortfall.

Residents may not expect to profit from their new home, but ResidenSea sure is planning to. ResidenSea will rent out 183 guest suites on the ship. Since it will get some compensation as a percentage of the operating budget, it has, as it notes in its documents, no incentive to keep operating costs down. Dellis says the cash flow will come from operating the guest suites and the private club and restaurants on the ship. Two and a half years after launching the ship, he foresees earnings before interest, taxes, depreciation, and amortization of \$36.2 million. The company hasn't yet completed the prospectus for its upcoming IPO, but "the kind of return we're looking for is getting closer to 30%," says Dellis.

ResidenSea is already planning future projects. That could involve ships with smaller apartments sold for usage during three months of the year. "We have been approached and are in discussions with potential partners from the cruising and hotel industries that could give us a stronger position in marketing and operating our guest suites," says Dellis. In an industry where economies of scale give valuable leverage, ResidenSea could gain needed heft from being acquired or partnering with someone.

Coming at a point when the ranks of new millionaires are surging, The World of ResidenSea seems a well-timed venture. Whether it will materialize is less than certain. But one thing is clear. The project adds a new term to the lexicon of luxury: conspicuous cruising.

By Suzanne Woolley in New York

COMMENTARY

By Susan Jackson

INSURERS SHOULDN'T BE SO WEB-SH

Insurers are in the business of addressing fears about the unknown. So why are they so scared of the Internet?

A recent Booz-Allen & Hamilton Inc. study found that while most consumers are skittish about buying insurance on the Net, almost 70% want to be able to get quotes online. Yet fewer than 10% of insurers provided that service at the end of 1997, and only 25% plan to by the end of this year. Adds Booz-Allen, only 16% of

defecting to other insurers.

Even companies that don't have agents would just as soon wait for someone else to test the waters. "It's not clear there's a real advantage to being first," says the vice-president of a company that sells insurance directly to consumers.

Some insurers are venturing onto the Net (page 162) and providing quotation services, especially for term life and auto insurance. But it's hard to actually buy policies online.

What insurers should really be worried about is competition. More than 75% of banks now sell annuities, traditionally the province of insurers. Even if Citibank and Travelers Group don't tear down the wall created by the Glass-Steagall Act that separates banking and insurance, the lines between the two are already blurred. T



Agents may balk, but consumers want cybersales

industry executives explicitly linked the Web to corporate strategy in 1997—up from a paltry 10% the previous year. Insurance analysts Conning & Co. predicted that only 1.6%, or \$6 billion worth, of all individual life, homeowners', and auto policies will be sold via the Net by 2006.

"BIGGEST HURDLE." By contrast, other financial institutions are eagerly embracing cyberspace. Booz-Allen reported that in 1997, 3.6 million people did their banking online and 2.7 million used online brokerages. Yet fewer than 10,000 people were served online by the insurance industry.

The industry's main problem can be summed up in one word: agents. They sell 90% of personal property and 98% of individual life premiums. "The biggest hurdle insurers see to [using the Internet] is the fear of cutting out agents," says Michael E. Gazala, a senior analyst with Forrester Research Inc. Whichever company starts actively using the Net first risks agents

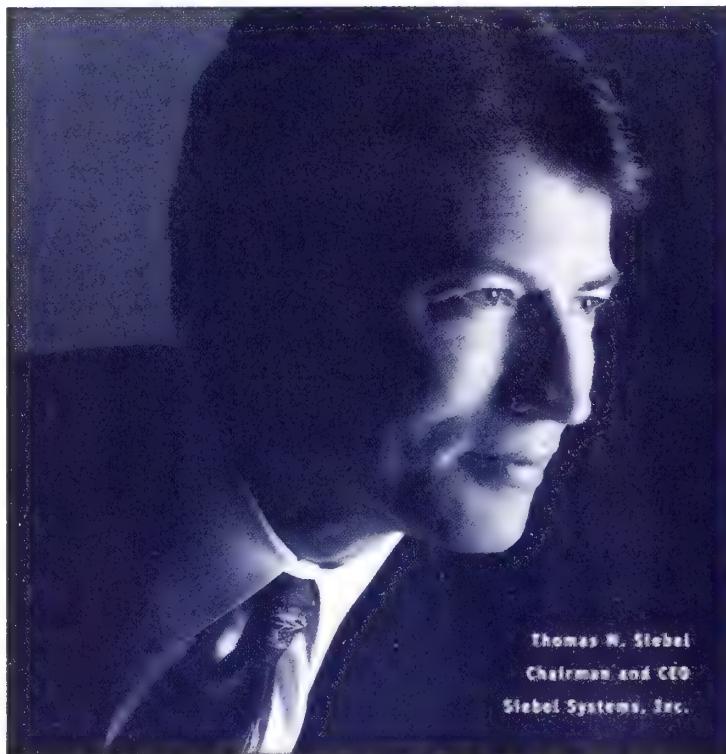
compete, insurers should be embracing a slew of new sales methods.

The industry should develop clear strategies to take advantage of the cost savings and increased customer service the Internet can provide, particularly on less complex policies. Agents don't necessarily have to be cut out of the loop by the Net, but they will have to start rethinking how they do business. Forrester's Gazala talks about the agent of the future managing 250 clients instead of 75, and using the Net to advise them about all aspects of their financial affairs rather than just specific insurance products.

Growing numbers of consumers are going to be clamoring to do more of their insurance business online. If insurers aren't prepared, there are plenty of competitors who will be eager to pick up the slack.

Susan Jackson covers insurance from BUSINESS WEEK's Connecticut bureau.

SIEBEL CUSTOMERS: 100% SUCCESSFUL 100% SATISFIED



Thomas W. Siebel
Chairman and CEO
Siebel Systems, Inc.

"SIEBEL SYSTEMS IS THE GLOBAL MARKET LEADER IN
SALES, MARKETING, AND CUSTOMER SERVICE INFORMATION SYSTEMS.
WE DO WHATEVER IT TAKES TO MAKE OUR CUSTOMERS SUCCESSFUL."

We've become the world's leading provider of sales, marketing, and customer service systems because we are committed to 100% customer satisfaction. In fact, Siebel Systems has become the fastest growing application software company in history because our customers trust us to make them successful. As we expand our relationships and global presence, one principle will endure: we are here to serve our customers. We will continue to do whatever it takes to assure our customers are 100% successful, 100% satisfied. To find out how we can make your organization more successful, call 1-800-720-3115, ext. 9187 or visit us at www.siebel.com.

SIEBEL
Sales • Marketing • Customer Service

BY GENE G. MARCIAL

DUPONT AND AMGEN: LAB PARTNERS?

When it comes to spotting the next big takeover, all eyes are on DuPont. It's no secret that the chemical giant wants to expand its life-sciences unit through an acquisition. On May 19, DuPont agreed to pay \$2.6 billion for Merck's 50% stake in a joint venture the two companies formed in 1991 to research drugs against AIDS, cancer, and heart disease. The talk on the Street is that DuPont will go after Monsanto or Britain's Zeneca. But some investors are betting DuPont's target is Amgen (AMGN), the world's top independent biotech company.

"DuPont has looked into Amgen's books and operations," says one big investor. "Some investment bankers associated with DuPont have talked informally with Amgen top executives about the prospects of a buyout," says another money manager. The word, he says, is that DuPont will make a cash offer for Amgen of \$95 a share—for a total of \$25 billion. Amgen stock now trades at 61½, for a market capitalization of just over \$15 billion. Based on a 1999 earnings estimate of \$3.40 a share, Amgen has a price-earnings ratio of 18—or 20, if 1998 earnings of \$3.04 are taken as the base.

DuPont CEO Charles Holliday Jr. has said that life sciences will be the cornerstone of DuPont's future. Holliday expects drugs and biotechnology to account for about 33% of earnings in five years, up from 18% today. Amgen has "a premier position in biotech, and its aggressive R&D spending augurs well for the long term," says Herman Saftlas of Standard & Poor's.

Amgen has 12 potential remedies in clinical trials. Its Infergen, a treatment for hepatitis C, won recent Food & Drug Administration approval, and its Stemgem, used in chemotherapy, is expected to be approved this year. Am-

gen recently reported discovery of a protein that prevents the activation of osteoclasts—cells that absorb bone. DuPont says it doesn't comment on speculation and rumors. Amgen did not return calls for comment.

STITCHING HIRSCH TOGETHER AGAIN

Feb. 20, 1998, is a day Hirsch International (HRSH) stockholders will find hard to forget: Shares fell from 21½ to 11½—a 48% drop. This distributor of computerized embroidery machinery had

warned that fiscal-fourth-quarter earnings would come in below expectations. The stock, highlighted in this column at 18 in May last year, rose to 26 in August, 1997. Since the February collapse, however, it has slipped below 9, though it now trades at 10½. Any hope for a snapback?

"Most certainly," says veteran stock-picker Allan Roness of JW Charles Securities: "I see the stock almost doubling from here," he says. That's because he believes the shortfall in sales and earnings was a temporary blip, caused partly by the loss of an order from an apparel manufacturer that moved to Mexico. And running costs jumped because of a ramp-up of its sales force—in anticipation of increased demand for its smaller machines.

Roness expects that last year's slack sales will be offset this year by a surge in demand for its smaller machines—the fastest-growing segment of the business. Made by Tajima Industries and Brother Industries, these devices sew logos and emblems on caps, shirts, and pants. Hirsch's customers include Fruit of the Loom and OshKosh B'Gosh.

The stock, which he says is headed toward 16 in a year, is one of the cheapest around—provided that earnings recover by fiscal 1999.

In the year ending Jan. 31, 2000, Roness expects Hirsch to exceed analysts' earnings estimates of \$1.10 a share. He foresees \$1.50 instead. And in fiscal 1999, he figures it will make 95¢ a

share, compared with 89¢ in 1998 and \$1.10 in 1997.

THIS SOAP OPERA MAY END HAPPILY

After some nasty problems, USA Detergents (USAD), maker of XTRA detergent and Nice 'n Fluffy fabric softener, seems headed for recovery. The company expects to be in the black in 1998, after a 1997 loss of \$21 million.

One New York money manager says the upturn means USA Detergents is moving closer to a deal with an interested buyer. Now at 12½, USA Detergents is worth 20 to 23 in a buyout figures this money pro.

A year ago, USA Detergents was featured in this column as a possible target for Clorox. But then, unpleasant things happened: In August, the company admitted mistakes in its 1996 financial reports that overstated earnings. In December, the company fired 21% of its employees and closed six plants, halving its product line. And in February, 1998, the president resigned.

Since then, USA Detergents has displayed "solid progress in its turnaround effort," notes Merrill Lynch analyst Rommel Dionisio. He expects the company to earn 50¢ a share in 1998 and 70¢ to 75¢ in 1999.

Whispers are that USA Detergents officials have been approached by a maker of low-priced soap and detergents. Should it acquire USA Detergents, "the combined company would dominate the low-priced soap and detergent markets," says one money manager. He notes that some key members of USA Detergents' management and board, who own about 45% of the stock, "have significant outside business interests, and they may now be ready to sell the company." A company spokesman declined comment.

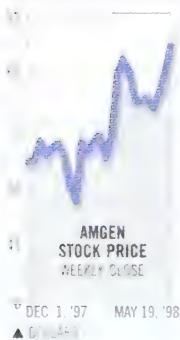
TORN UP BY BAD NEWS



SUDSING UP NICELY



THE CHEMISTRY IS WORKING



BusinessWeek ONLINE

For more coverage of the markets, visit our Web site at businessweek.com

When the grass
is greener
on the other side
of the fence,
it may be that they
take better care
of it there.

— Cecil Selig



ZURICH



Going beyond business as usual. Providing you with innovative insurance,
financial protection and investment management. Globally. And locally.

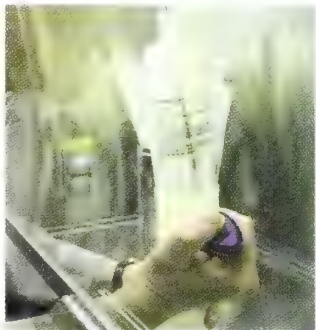
The Zurich Group. Building relationships, solution by solution.

DISPATCHES FROM THE CANCER FRONT

There's a lot of good news from the oncologists' confab in Los Angeles

The results of some 2,000 cancer research studies were presented at the American Society of Clinical Oncology's annual meeting in Los Angeles on May 16-19. This year's meeting generated unusual excitement, as many years of basic research appear finally to be paying off with new methods of cancer treatment and prevention. More than 19,000

scientists and doctors crowded into meeting rooms and auditoriums to get their first glimpse of the latest ammunition in the war against cancer. Genentech Inc.'s new breast cancer drug, Herceptin, generated much of the buzz, but as BUSINESS WEEK Associate Editor Catherine Arnst reports, other significant findings were announced:



LAB SUCCESS: Angiostatin curbs the disease in mice

KILLING TUMORS BY STARVATION...

PROMISING RESULTS FROM THE first human trials of two so-called anti-angiogenesis drugs received close scrutiny from researchers attending the meeting. These drugs work in much the same way as angiostatin and endostatin, the two proteins that were widely publicized as a potential cure for cancer a few weeks ago after showing promise in mice. Genentech's drug, called anti-VEGF, attacks a growth factor that fosters blood-vessel growth. It prevented various cancers from spreading in 13 patients 10 weeks after treatment. TNP-470, from TAP Pharmaceuticals, stopped kidney cancer from spreading in 5 of 20 patients for at least 16 weeks. More tests will be required to confirm the value of this new class of drugs, researchers cautioned.

...AND BY GERM WARFARE

AN INNOVATIVE APPROACH FOR treating prostate cancer involved inserting a gene from the herpes virus directly into the tumors of 18 patients. The doctors then administered the antiviral drug ganciclovir. Normal cells were immune to the drug, but the cancer cells containing the herpes virus were destroyed, as were all the tumor cells nearby. The early stage trial was designed only to test the safety of the treatment, but the researchers, from the Baylor College of Medicine in Houston say three patients showed a significant decrease in the size of their tumors, and one showed no sign of the cancer after biopsy.

TWO OUNCES OF PREVENTION

A TWO-YEAR TRIAL OF ELI Lilly's Evista, an anti-estrogen drug approved for osteoporosis, cut the incidence of breast cancer to 58% from 66% in some 7,000 high-risk women. It also slightly reduced the risk of cancer of the endometrium, the lining of the uterus. Meanwhile, the National Institutes of Health revealed details of a study in which Zeneca's Tamoxifen, an earlier anti-estrogen, cut the incidence of breast cancer by 45% but slightly hiked the risk of

endometrial cancer. It would be misleading to compare the results of the two different trials, researchers said. The NIH is recruiting for a very large trial to begin in the fall, that will directly compare the two drugs.

ANOTHER CHEMO CONTENDER

ON THE TREATMENT SIDE OF breast cancer, researchers reported for the first time that Taxol, a Bristol-Myers

Squibb drug for women in the late stages of the disease, can raise survival rates when used with other chemotherapy as a first-line treatment. The usual regimen is to remove the breast and follow up with two conventional chemotherapy drugs. A study of 3,170 patients in addition of Taxol to that regimen resulted in a slight increase in the number of survivors. After two years of treatment, overall survival rate percentage points, to 90%. The number of survivors who appeared completely free of disease rose 4 points to 90%. The gains may seem small, but the trial's investigators say it is unprecedented to see a survival benefit so early in a breast cancer study. "This new combination therapy has the potential to save tens of thousands of lives worldwide each year," said Dr. Richard L. Schilsky, director of the University of Chicago's Cancer Research Center.

TO SCREEN OR NOT TO SCREEN

A STUDY THAT HAS GENERATED MUCH CONTROVERSY seems to show that routine screening for prostate cancer may significantly reduce deaths. Over eight years in a group of 46,193 men studied by Dr. Fernand Labrie of Laval University in Quebec City, Canada, the incidence of death from prostate cancer was 69% lower in the group given prostate-specific antigen (PSA)

tests and rectal exams. Those results would mean 27,050 lives saved each year in the U.S. if routine screening were instituted.

However, cancer experts say they are reluctant to call for routine screening because men can often live a full life with a small tumor. But if one is found, doctors usually feel they should treat it. In those cases, the cure might be worse than the disease—surgery or chemotherapy can leave the patient impotent, incontinent, and susceptible to second tumors.

CANCER DEATHS RISE AS U.S. POPULATION GROWS AND AGES

BREAST CANCER DEATHS

1974	32,424
1994	44,008

PROSTATE CANCER DEATHS

1974	19,184
1994	34,902

ALL CANCER DEATHS

1974	358,881
1994	534,310

DATA: AMERICAN CANCER SOCIETY

eckitt & Colman relocates regional
operations base from UK to Jebel Ali

AST to launch
computer assembly
operations

Mitsubishi opens ME parts centre

British Airways
relocates regional
office to Dubai

Societ
Genera
rep off

**Many of the
biggest names in business
are growing bigger
in Dubai.**

este sets up ME head c
in Dubai

Siemens Nixdorf
office in D

Rhone-
Poulenc
to boost
operation

Matsushita sets up Jebel Ali joint
venture distribution complex

Grundig extends scope
of JAFZ operations

Nissan to double size
of Jebel Ali facility

HL starts operation
\$4mn air express centre

of Dubai
Swiss Bank C
sets up in Duba

**Join them.
And hit the headlines.**

Dubai office for Hewlett Packard

To find out how your company can profit from doing business
in one of the world's most dynamic commercial centres,
fax this coupon to (215) 751 9551 or (310) 752 4444.

NAME _____
TITLE _____
COMPANY _____
ADDRESS _____
TEL _____ FAX _____

East and Central USA: 8 Penn Center, Philadelphia PA 19103, USA. Tel: (215) 751 9750. Fax: (215) 751 9551.
West Coast: 901 Wilshire Boulevard, Santa Monica, California, CA 90401, USA. Tel: (310) 752 4488. Fax: (310) 752 4444



GOVERNMENT OF DUBAI
Department of Tourism and
Commerce Marketing

BAVUS E

THEIR AWARD-WINNING ENVIRONMENTAL EFFORTS YIELD PROFITS THAT ARE OFF THE CHARTS.

EPA Congratulates the ENERGY STAR® Buildings and Green Lights® Partners and Allies of the Year.

American Electric Power Company

City of Scottsdale, Arizona

Compaq Computer Corporation

Davenport Community School District

Johnson & Johnson

Louisville and Jefferson County Metropolitan Sewer District

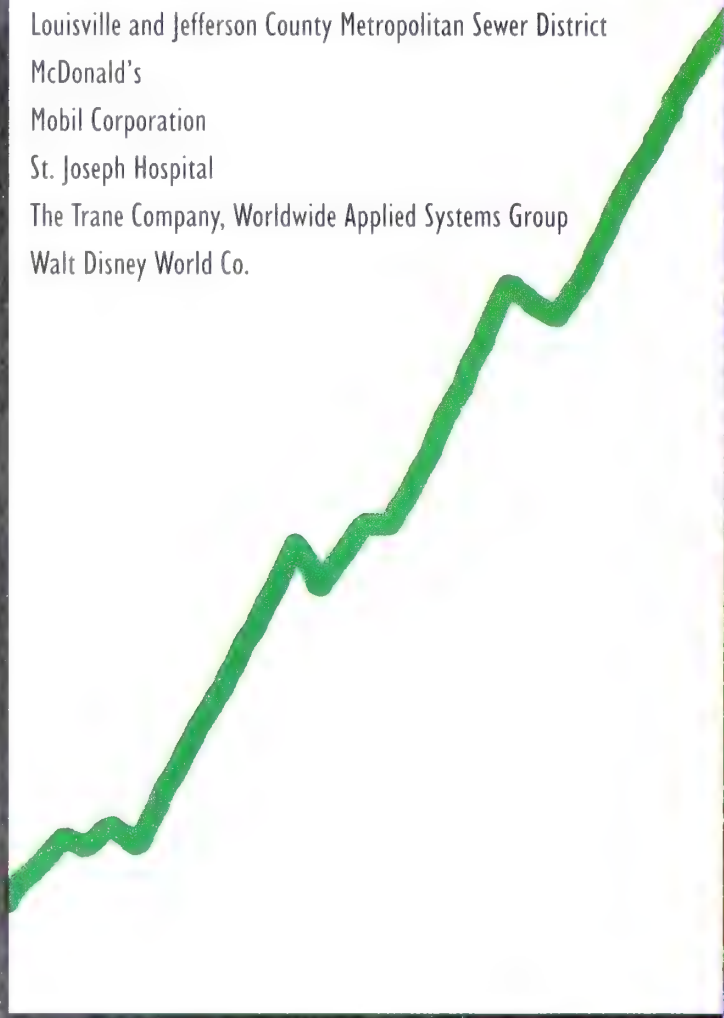
McDonald's

Mobil Corporation

St. Joseph Hospital

The Trane Company, Worldwide Applied Systems Group

Walt Disney World Co.



These leaders demonstrate that energy efficiency is smart business, boosting their bottom lines while peaking environmental performance. By installing energy-efficient technologies in their buildings, these organizations annually save more than \$39 million and prevent the release of more than 336 million pounds of carbon dioxide. Their award-winning efforts reduce operating costs and build more competitive organizations, as well as help prevent global climate change, acid rain, and smog. It seems some companies share their profits with the world.

To learn more, call the toll-free ENERGY STAR Hotline at 1-888-STAR-YES (1-888-782-7937).

Is fishing at Waterfall Resort, Alaska Business or Pleasure?



Ruger Peters - Newport Beach, CA
Guide: Devin Rowe
King of Kings Tournament Winner - 65.7 lb. King Salmon

The decision is good for business and a pleasure to make.



Ford Dealers Association of Southern California "For the last 14 years, Waterfall Resort has been our incentive destination of choice. Our benefits include not only improved sales results, but the Waterfall experience itself helps build a camaraderie unlike any other travel destination we have used." - Rich Defrank, Manager

Wagh Family of Las Vegas "Since July of 1985, we have been bringing groups of various sizes to Waterfall Resort. I believe we are somewhat like the salmon. We return because of instinct. Our instincts have been nurtured and rewarded by the wonderful staff of Waterfall and the beauty that is southeast Alaska." - David Wagh

Fax this page to Waterfall (907) 225-8530 and receive our brochure and video.

e-mail: waterfal@alaska.ktn.net
internet: <http://www.waterfallresort.com>



Name (Print) _____

Company _____ Title _____

Address _____

City _____ State _____ Zip _____

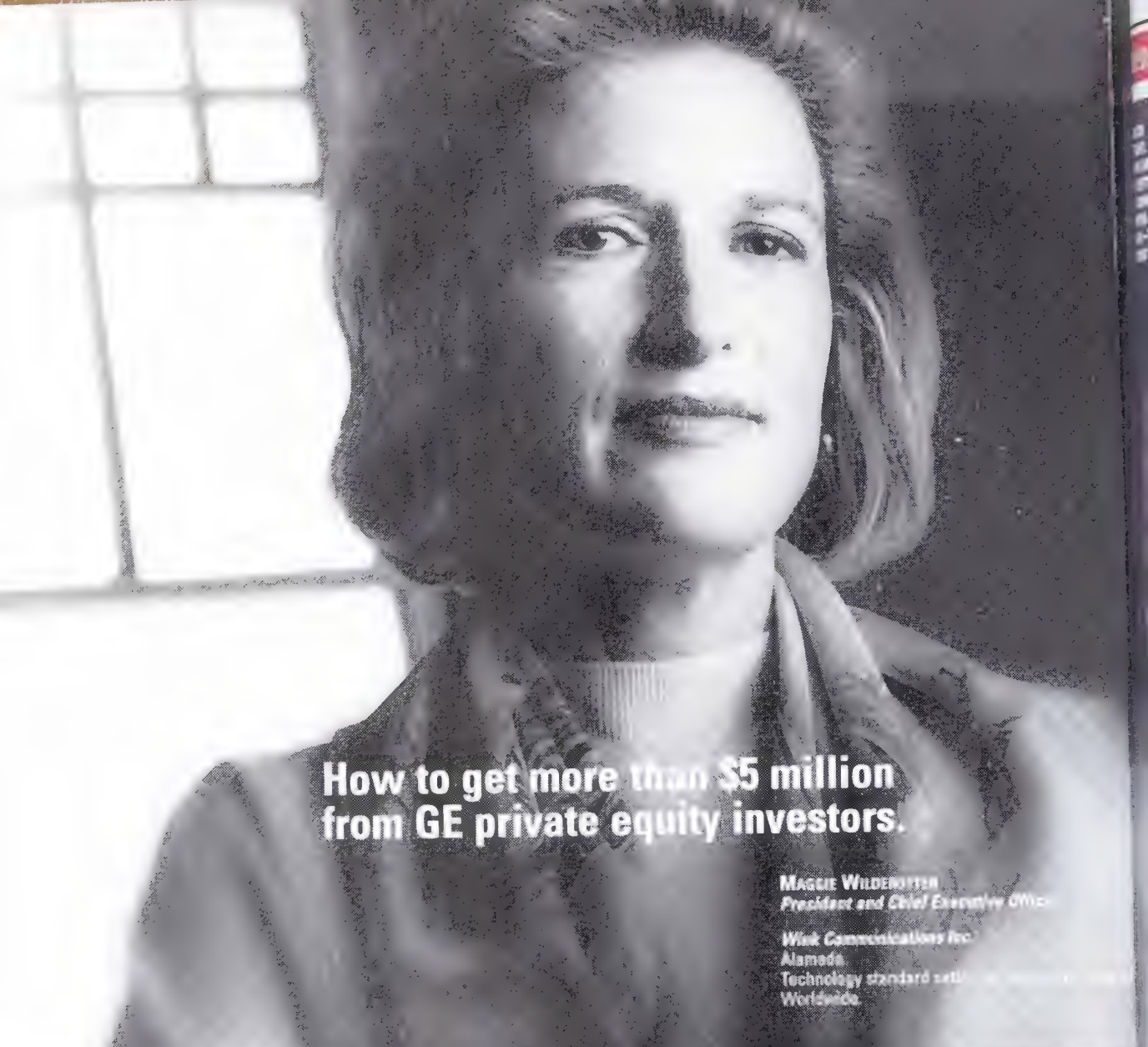
Area & Phone _____ Fax _____

Interested ☐ Very Interested ☐ Saltwater ☐ Freshwater ☐

Business Entertainment ☐ Pleasure ☐ Number of Guests _____

Best Season 1998 ☐ 1999 ☐ 2000 ☐ May June July Aug. Sept.

Date of Business Week issue _____



How to get more than \$5 million from GE private equity investors.

MAGGIE WILDEROTTER
President and Chief Executive Officer

Wink Communications Inc.
Alameda
Technology standard setting, innovation, and
Worldwide.



GE Capital Equity Capital Group

"Equity capital's available today. What's scarce are equity investors who can go beyond deal structure and give us a business edge."

Formerly an executive vice president at AT&T Wireless, she became CEO to take this cutting edge, enhanced broadcasting software company to the next level.

"Private equity must have a strategic relationship at its heart. It must be collaborative. It's got to help make the connections where they count the most."

Maggie Wilderotter knew that GE Capital Services could invest from \$5 million to \$50 million for minority ownership stakes in rapidly growing companies, if the conditions are right. But she also saw opportunities that her business could have with the

worldwide resources of GE. Strategic opportunities that went beyond financing. Like GE Information Services to help provide a back-end response network for processing Wink's interactive transactions. And, like strengthening Wink's relationship with NBC for enhanced TV broadcasts.

If your business is ready for equity capital with enhanced features, call us at 1.888.809.8500 or e-mail us at equity@gecapital.com.

And be sure to check our web site at www.equitycapital.com for more information.

Private equity at GE Capital.
A window of opportunity awaits.

For more information about the breakthrough technology of Wink Communications, visit their web site at www.wink.com. © 1995 General Electric Company. All rights reserved.

CANCER
PATIENT:
NEW DRUG,
HERCEPTIN,
IS ADDING
MONTHS—OR
YEARS—TO
SOME VICTIMS' LIVES



CANCER

AFTER 25 YEARS, A BIG PAYOFF

Monoclonal antibodies are generating new excitement

Doctors are usually careful not to oversell experimental cancer treatments, but investigators studying a new breast cancer drug are having trouble containing their excitement. In May 17, researchers reported that Genentech Inc.'s Herceptin dramatically slowed breast cancer and added months—in some cases, years—to the lives of patients suffering from the most aggressive form. "This is the biggest difference I've ever seen" in a study of advanced cancer patients, says Dr. Larry Norton, an oncologist at New York's Memorial Sloan-Kettering Cancer Center. For the biotechnology industry, the results couldn't be better. Herceptin and a number of other early achievers are rehabilitating the reputation of a much-maligned class of bioengineered drugs called monoclonal antibodies. They are designed to

target cancer cells with pinpoint accuracy, killing the tumor without harming healthy tissue. For 20 years, monoclonals have shown remarkable results in mice, but scientists could not replicate their effect in humans. Herceptin is "proof of principle" that monoclonal antibodies work, says Dr. Dennis J. Slamon of the University of California at Los Angeles, a principal investigator of the drug. "There is no reason to think that they won't work against just about any disease if we know the genetic mechanism."

In fact, another monoclonal antibody, Centocor Inc.'s Avakine, is likely to win Food & Drug Administration approval in late May for the treatment of Crohn's disease, a chronic and painful inflammation of the bowels. Schering-Plough Corp. has the marketing rights for Avakine.

The FDA approved the first monoclonal

at last November—Rituxan, a treatment for non-Hodgkin's lymphoma developed by Genentech and IDEC Pharmaceuticals Corp. Also waiting for FDA approval is MedImmune Inc.'s MEDI-493 for the treatment of respiratory syncytial virus (RSV), the leading cause of pneumonia in infants. Other monoclonals for the treatment of leukemia, head and neck cancers, heart disease, asthma, and organ transplant rejection are currently in clinical trials. At the annual meeting in Los Angeles of the American Society of Clinical Oncology, where the Herceptin findings were announced, researchers reported on almost 20 different monoclonals for cancer alone. "This is a watershed moment," says Dr. Jeffrey V. Ravetch, director of the molecular genetics and immunology lab at Rockefeller University in New York. "In the next year or two, there should be a real wave of new antibodies from a variety of companies."

MOUSE TRAP. Herceptin is on a fast track for FDA approval, and Genentech is expected to begin marketing it by yearend. Lehman Brothers Inc. analyst C. Anthony Butler predicts the drug will quickly reach sales of \$500 million a year. "This marks the rebirth of the monoclonal field," he says. Genentech's stock hit a 52-week high on May 18, closing at 72%.

The rebirth of monoclonals is the result of improvements in the technology for making monoclonal antibodies, com-

bined with a more precise understanding of the cellular mechanisms that cause many diseases. Monoclonal antibodies were first developed more than 20 years ago by British biologists Georges J.F. Köler and Cesar Milstein, who won a Nobel prize in 1975 for their technique for isolating and cloning antibodies designed to recognize and bind to cancer-causing human antigens that escape the notice of the body's immune system. Once injected into the bloodstream, the monoclonals hunt down an offending antigen and either block its disease-causing action or kill it with a toxin or radioactive isotope, all the while avoiding healthy tissue. Mice are the living "factories" that produced these first anti-

body for making human antibodies is well worked out now," says Richard L. Love, president of ILEX Oncology Inc. of San Antonio, which just started studies of a monoclonal called Campath-1H for leukemia. The antibody was developed jointly with LeukoSite Inc. of Cambridge, Mass. "The field is only limited now by the ability to identify targets," says Love.

Many of these new drugs are getting a boost from the attention being paid to Herceptin. It acts by binding to a receptor expressed by the Her2 gene, found in breast-cancer cells. The receptor receives signals from growth factors, triggering the multiplication of cells. In about 25% to 30% of the 180,000 U.S. women diagnosed each year with breast

for Centocor's Avakine, which neutralizes an inflammatory agent in the blood of patients with Crohn's disease, that the drug reduces both the severity and number of symptoms for the disorder within two weeks. "This kind of clinical response in Crohn's disease is unprecedented," reported Dr. Steven Targan, director of the Inflammatory Bowel Disease Center at Cedars-Sinai Medical Center in Los Angeles.

The range of diseases for which monoclonals is among the broadest of any biotechnology agent so far. Genentech is in early human trials of an antibody that suppresses allergic responses in asthma patients, and Immunomedics Inc. has identified an antibody that can remove

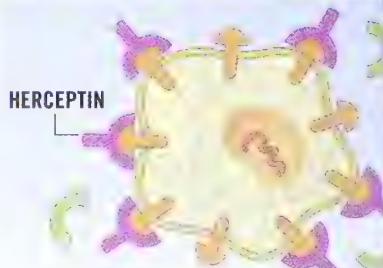
TARGET PRACTICE How the monoclonal antibody drug Herceptin slows down breast cancer



1 Normal breast-tissue cells have receptors on the surface produced by the HER2 gene. When growth factors bind to these receptors, the cells divide and multiply.



2 In 25% to 30% of women with breast cancer, tumor cells produce too many HER2 receptors. That produces an abnormally large growth signal, causing the cells to multiply rapidly.



3 The HER2 monoclonal antibody, Herceptin, binds to the HER2 receptors, preventing the attachment of growth factors and slowing the abnormal growth.

DATA: GENENTECH

bodies, but the human immune system saw them as foreign invaders and attacked and killed the monoclonals before they could do their work.

The mouse antibodies were used in those first experiments because they were easier to work with. But about 10 years ago, scientists figured out how to overcome the immune-system response by replacing most of the mouse components with human counterparts to create "chimeric" antibodies. These work particularly well against blood-based cancers such as lymphoma—Rituxan is a chimeric—because the cancer weakens the body's immune response. But chimeric antibodies are ineffective against solid tumors unrelated to the immune system. The big breakthrough came a few years later when researchers created fully humanized monoclonals, eliminating mouse components entirely.

PRICEY. These antibodies aren't easy to make, and that is reflected in their price—one course of treatment with Rituxan costs \$8,904. Creating a humanized monoclonal antibody can take from six months to two years. Still, "the technol-

cancer, a Her2 gene leads to the production of too many receptors. Those tend to be the deadliest cancers. In their presentation at the cancer meeting, doctors reported that Herceptin, when added to standard chemotherapy treatment for women in late stages of the disease, increased the time before the cancer spread by about three months

fatty deposits from coronary arteries, reducing the need for angioplasty. But drugs do have some shortcomings. They must be given intravenously, and researchers say they likely won't work against lung and pancreatic cancer, which are generally not diagnosed until they are quite advanced and have several different types of cancer-causing cells.

Monoclonals have long worked on mice, but human immune systems rejected them. Now, scientists are solving that problem

and raised tumor response rates by 23% to 32%—with virtually no side effects. The average survival rate for women who got Herceptin was 13 months, and Sloan-Kettering's Norton says one of his patients is still in complete remission after five years. "These are women who were destined to die probably in six months, eight months," says Norton.

Other monoclonals are showing similar results. Clinical trials reported last year

More important, it is possible that cancer cells eventually will figure out how to outwit the antibodies, just as they have managed to resist many other treatments. "We cannot lose sight of how clever cancer cells are," says V. Craig Jordan, director of breast cancer research at Northwestern University in Chicago. Cancer victims can only hope that bioengineers keep pace.

By Catherine Arnst in Los Angeles

IT'S YOUR BOTTOM LINE.

(WE JUST WANT TO GIVE IT A BOOST.)

You've got enough to worry about. And from now on your sales department won't be high on the list. Because now you can reap the benefits of AurumFrontOffice®. A single-environment front office suite with powerful sales, configuration and call center applications. A completely integrated Web-based solution. Enabling you to arm your sales force and distribution channels with 100% accurate information at the point of sale. 100% of the time. The result? Sales people sell. Distributors distribute. Products get to market faster. And all of a sudden you're looking at a better bottom line.

We'll take care of it for you. Just as we have for some of the world's leading companies — Hewlett Packard, Lanier, PG&E Energy Services and Met Life, to name a few. Find out how. Visit us at aurum.com and request the Aurum Solutions Guide. It's got in-depth information on how to improve your sales process. For an improved bottom line.

CALL FOR THE AURUM SOLUTIONS GUIDE

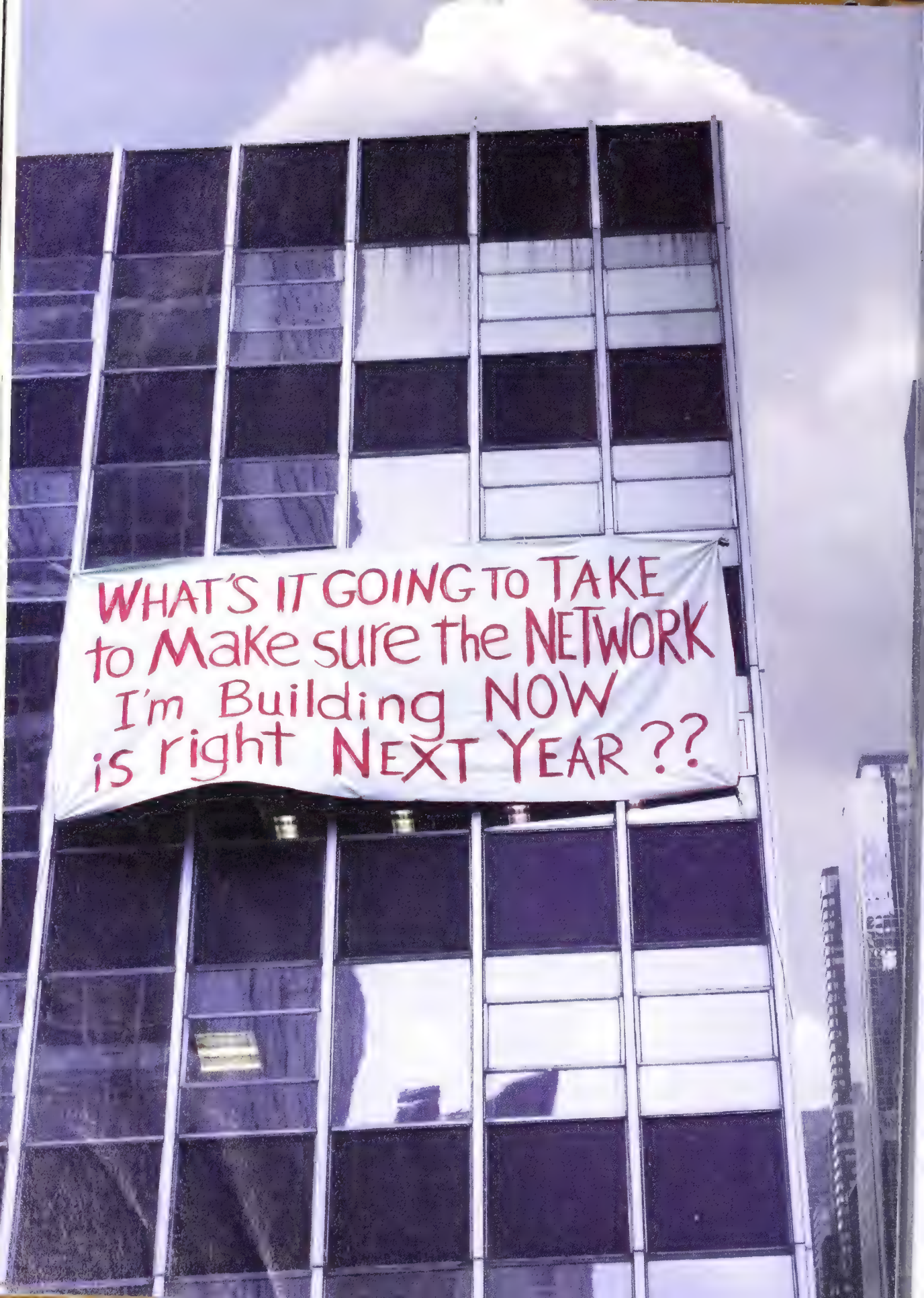
1-800-683-8855 EXT.129



AURUM

A Baan Company

Copyright 1998 Aurum Software, Inc. Aurum and AurumFrontOffice are registered trademarks of the Aurum Corporation. All other trademarks are the property of their respective holders.



A photograph of a tall building with a grid of windows. A large banner is stretched across the middle of the building. The banner has handwritten text in red ink. The text reads: "WHAT'S IT GOING TO TAKE to Make sure the NETWORK I'm Building NOW is right NEXT YEAR ??". The building's windows are dark, and the sky is blue with some clouds. The banner is white with red text.

WHAT'S IT GOING TO TAKE
to Make sure the NETWORK
I'm Building NOW
is right NEXT YEAR ??

KNOW-HOW What's it going to take to get the bandwidth you need (where & when & as fast as you need it)? To handle wireless communications as easily as wired? To get data as reliable as voice? (?????) It's going to take people. Technology. Experience. And the ability to deliver. We've built, and continue to build, the most powerful networks on earth. We've got the largest service force in the industry (already we service more networks than anyone on the planet). And we've got the brains of Bell Labs behind us. This is the kind of combined arsenal it's going to take to make sure the network you start building now is strong enough to be your network down the road. **We make the things that make communications work.**

Lucent Technologies
Bell Labs Innovations

600 Mountain Avenue
Murray Hill, NJ 07974-3636
http://www.lucent.com
1-888-4-LUENT



SELLING THE WORLD ON WORLD.COM

John Sidgmore is point man in its Net expansion strategy



PEACEMAKER: He must allay trustbusters' fears about the MCI merger

It was a hint of the wild ride to come for UUNET Technologies Inc. President John W. Sidgmore. As he and McEntire belted out country songs on stage, WorldCom Inc. Chief Executive Bernard J. Ebbers danced in the aisles of Nashville's Opryland Hotel, with the trim Sidgmore on his shoulders. What occasion? A celebration last year of WorldCom's \$14 billion acquisition of MFS Communications Co. and its Internet division, UUNET. "It was a scary," recalls Sidgmore. "Like being in a mosh pit."

He has gotten used to the fever. Ever since Sidgmore teamed up with Ebbers, he has found that he and WorldCom are about as welcome in the telecom industry as slamdancers in a ballroom waltz. In October, WorldCom launched a hostile bid for MCI Communications Corp. and eventually wrested MCI away from British Telecommunications PLC and GTE Corp. Now, U.S. and European regulators are threatening to scuttle the \$37 billion deal because of antitrust concerns.

The issue: Regulators fret that Sidgmore's UUNET already carries so much of the Internet's traffic that the addition of MCI's Net business would give him enough control to squeeze out other players. The European Commission's hearings on the issue in Brussels in mid-May where rivals claimed the combined companies would control more than 40% of Net traffic. Sidgmore, as WorldCom's vice-chairman, argued that their share is closer to 20%. Insider, however, say that executives already are trying to placate trustbusters by finding a buyer for MCI's Net operation. British Telecom and GTE are both interested in the unit, the insiders say. **"EVANGELIST."** It's classic Sidgmore salesman at heart—he spent the last decade of his career selling everything from calculators to time on mainframes—he will go to great lengths to close a deal. The WorldCom-MCI merger is no exception. Sidgmore might see a worthwhile trade-off in selling MCI's e-business even though WorldCom could lose customers who get a package of MCI long-distance and Internet services.

He's done this kind of deal before. Take the agreement he wrangled out of Microsoft Corp. in 1994. By giving up a 15% stake in UUNET, he attracted a critical \$12 million investment from Microsoft and got the software giant to pony up \$100 million a year to pay for UUNET's networking gear. And then there is the deal he landed with No. 1 online service America Online Inc. In the fall of 1997, Sidgmore cinched a contract



Remember a time
when your ownership
didn't weigh heavily
on your mind?

We'd like to help you rediscover that same sense of comfort and ease of today's business world. How? With an enterprise resource planning system that you'll both love and be able to afford.

As a leader in ERP solutions for mid-size manufacturers, DataWorks thoroughly understands your need for powerful, yet affordable systems. That's why we offer an advanced workflow orientation that reduces training and IS expenses. And why we imbue our products with Microsoft technologies — from desktop applications to BackOffice.™ It's also why we guarantee implementation to be less than half the cost of the software.

Call DataWorks at 1-800-413-2797. Tell us what's on your mind; we'll help put it at ease.

DataWorks
Information at its best

www.dataworks.com

engineering a complex three-way arrangement that gave AOL more customers and gave UUNET AOL's traffic. "Sidgmore was the architect and evangelist for the deal," says the online service's CEO, Stephen M. Case, who will now join WorldCom's board. "He wouldn't let it go."

At 47, Sidgmore is a workaholic who combines the cheerleading spirit of a high school coach with a salesman's determination to close a deal. He sends E-mails to co-workers at 2 a.m. or later and is so focused on work that he often forgets the little things: He has had his credit cards and car-phone accounts cancelled several times, so now he pays them three months in advance.

POKER PLAYER. Sidgmore is no less dogged about keeping his troops happy. In 1994, he nixed the idea of a security door to wall off the executive suites because he wanted workers to visit him anytime. And when the company went public in 1995, Sidgmore insisted that employees receive the block of stock normally reserved for special friends of the company. His staff has responded with shouts of geek approval during meetings—such as "John, have my children."

Sidgmore will need all his smarts, charm, and dealmaking skills in negotiations with trustbusters. The data networks of WorldCom, MCI, Sprint, and GTE are much like an intricate web of highways. Now, the carriers typically don't charge each other fees if traffic from one carrier travels over the network of another. If Sidgmore oversees a dominant share of the Internet system, rivals worry he could set up the equivalent of toll booths and start charging his competitors unfair prices to use his network.

Rubbish, says Sidgmore. "The notion that we will hurt them is preposterous. The Internet doesn't work if major players don't cooperate," he says.

Sidgmore is mulling over several options to satisfy regulators, according to sources close to WorldCom. In addition to selling off MCI's Net business, he's considering a promise to keep UUNET's network available to all rivals at reasonable prices. He's also toying with spinning off two small networks he got from CompuServe Inc. and AOL.

Rival GTE, however, says that's not enough. GTE general counsel William P. Barr is pushing for a more extreme solution: that WorldCom sell UUNET to get MCI. "Sidgmore wants to build a

network that dominates the Internet," he charges. Sources close to WorldCom say executives would balk at such a proposal. Sidgmore declined to comment on specific antitrust solutions.

Whatever deal he cuts, Sidgmore is convinced that WorldCom's future depends on its Internet business. "When the traditional voice market grows 8% to 10% a year, compared with the

SIDGMORE'S TO-DO LIST

CLOSE THE MCI DEAL Sidgmore must cut a deal with U.S. and European trustbusters who are concerned that the combination of WorldCom's and MCI's Internet operations, which rivals say handle more than 40% of Net traffic, would lead to unfair pricing. WorldCom is negotiating to sell off MCI's Internet business; GTE and British Telecom are possible buyers.

EXPAND THE NETWORK With the Internet doubling every four months, WorldCom's biggest task is to build its network at the same pace, whether internally or through acquisitions such as last year's purchases of ANS Communications and CompuServe.

GRAB MARKETS OVERSEAS As the Net catches on in other countries, the company must continue building or acquiring networks abroad. It is now expanding into 10 big European and Asian markets, including Britain, France, Germany, Japan, and Hong Kong.

CREATE NEW PRODUCTS To capture more revenues from the growing data business, the company must offer services beyond Internet access. Last year, it introduced faxing over the Net and multicasting, which allows customers to send a single stream of audio and video to UUNET, which dispatches it to multiple points around the world.

1,000%-a-year growth on the Internet," he says, "it doesn't take long for the Internet to be the dominant piece in the industry." In 1998, WorldCom expects \$2 billion in Internet revenue, accounting for more than 20% of its total sales and 40% of its growth. That's up from \$600 million in 1997, or 7.5% of total sales.

Given Sidgmore's roots, it's surprising that he's anywhere near the first big antitrust debate about the Internet—let alone at the center of it. Four years ago, the Internet was only beginning to gain popularity with corporations, and Sidgmore had recently taken the job as chief executive of a Computer Sciences Corp. subsidiary after a 14-year career in sales at General Electric Co. When the call to recruit him came, his first reaction was: "I can't possibly

join a company called UUNET; it sounds like Wee-Wee Net or Yo-Yo Net." (It's pronounced You-You Net).

But Sidgmore, who loves to play poker, liked the potential payoff—and cut himself a sweet deal, including a \$200,000 signing bonus and a 7% stake in the company. "I was joining a company that could blow up," he says. "If I made something out of it, I'd have the tiger by the tail."

Indeed, Sidgmore has succeeded by betting against conventional wisdom. One of his most critical moves was his refusal to imitate AOL by pursuing residential customers. Instead, he followed the money—corporate clients. As a result, in 1995, UUNET was the first Internet company to turn a profit. "There was tremendous pressure for us to go to consumers, but we were never going to be able to compete," says Sidgmore. Adds John Jay, a venture capitalist at Menlo Park Ventures, one of the company's three investors: "It's the most important call he ever made." No rivals like PSINet Inc. that began the rocky consumer market by switching gears.

SPEED GOLF. Sidgmore's drive to succeed started early. When he was just 13, he began earning \$1 an hour by helping to calculate clients' tax returns for his father, a self-employed CPA who went blind. The young Sidgmore, a native of suburban Spring Valley, N.Y., attended the State University of New York in Oneonta to remain near his mother and graduated with a degree in economics. His first job out of college was selling Rockwell International Corp. calculators.

Today Sidgmore is worth \$130 million, but he's not interested in kicking back to enjoy his wealth. Even on his rare days he takes time off, he plays three-hour speed golf with a cell phone glued to his ear.

Sidgmore won't have much time on the links as he meets with trustbusters in the months ahead. European and U.S. regulators are expected to make a decision on the merger by July. Sidgmore insists that there's little chance the Internet fuss will upset the merger with MCI, primarily because it's driven by synergies between MCI's long-distance and WorldCom's local phone businesses. Still, Sidgmore may have to throw out his best slamdancing to get the deal done.

By Catherine Yang in Washington with Peter Elstrom in New York

LINE SPORTS: BER FANS ARE ROARING

Players are involved. But how do you sell tickets?

obsession that gripped some top executives at Walt Disney Co. in April had nothing to do with the g sweeps ratings for its ABC network. Instead, Disney Chairman El D. Eisner and ESPN top exec M. Bornstein were scouring the net for news about Dennis Rodman's rebounds or Michael Jordan's scoring. In their

WUE KICK

at Cup ads
ght
sLine
llion



off-hours, the Disney executives were battling in a 10-person company "fantasy basketball" championship—ESPN SportsZone's Web version of the age-old simulated league play. "It's addicting," says Eisner, who finished third, behind a couple of guys who he jokes "aren't going to be working here much longer."

Team Disney is just part of the crowd at a growing number of Web sites geared toward sports fans, among the most rabid of Internet users. The need for hourly fixes of scores, statistics, and news updates makes sports tailor-made for the Web, where material can be updated constantly from anywhere around the globe. "They only need to hear

about the nuclear test in India once, but sports scores keep changing by the minute," says Geoff Reiss, senior vice-president for sports at ESPN Internet Group.

So far, the competition for the attention of sports buffs is as fierce as any on the playing field—but not nearly as lucrative. Disney and media rivals News Corp., Time Warner, and CBS all have sports sites that offer timely stats and news for free, with advertising accounting for most of the revenues. Today, though, none of these sites is generating enough cash to be profitable and they're not expected to for at least five years, says analyst Patrick Keane of market researcher Jupiter Communications. By then, say analysts, ad revenues will rise and

Netizens will be more comfortable with paying online subscriptions, which today range from \$7.95 for a tip sheet to \$29.95 for a fantasy league membership.

The key is building a huge following, a strategy already in play. CBS SportsLine saw daily visits triple in January from a year ago, to nearly 478,000. That was enough to send the stock price of SportsLine USA Inc., CBS's Fort Lauderdale partner, to \$34 a share, from \$8 when the company went public in November. And it helped prompt Disney to spend an estimated \$250 million for the two-thirds it didn't already own of Web publisher Starwave Corp., which has joint ventures to produce sites for partners including ESPN, the National Basketball Assn., and the National Association for Stock Car Auto Racing (NASCAR).

The top sites feature brand-name backing: ESPN SportsZone, CBS SportsLine, and CNN/SI. But a host of others are tapping in—from the *Sporting News* to IBM's Olympic site. Even No. 1 search engine Yahoo! Inc. has a sports area that gets as much traffic as any of the top three, says Tonya Antonucci, sports producer at Yahoo!

The main players, though, have the added oomph of cross-promotions with their TV, cable, and print outlets. ESPN can put hyperactive basketball commentator Dick Vitale on its site, while CNN/SI, launched last July, generates statistics or sports tidbits that find their way into CNN's sports shows or *Sports Illustrated* magazine.

The real secret weapon for these sites is the main event. Biggies such as the World Series or the Super Bowl increasingly prompt newcomers to look for the nearest sports site. CNN/SI, for

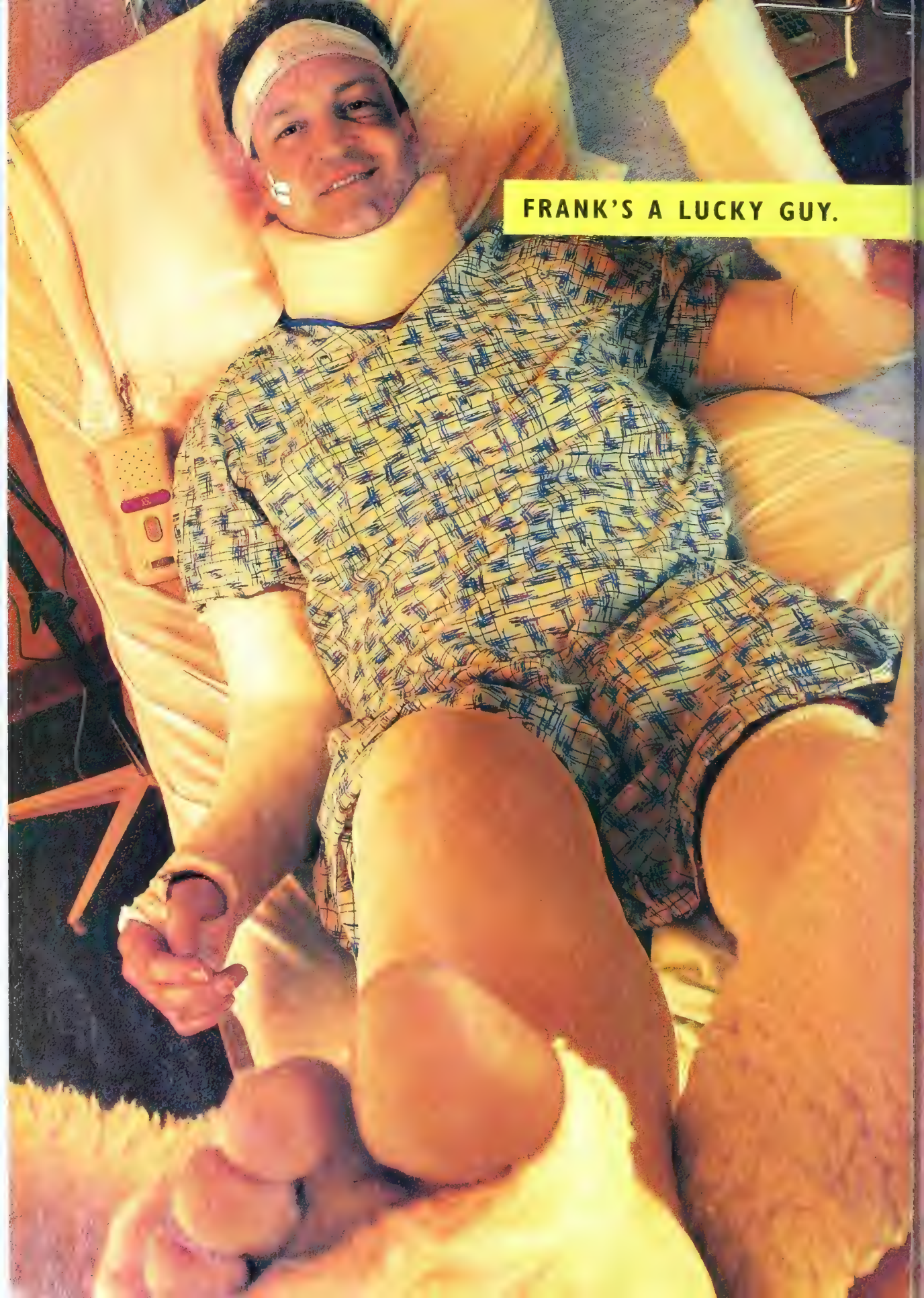
example, saw its "page views," or number of pages called up on a Web site, jump to 160 million in April from 125 million the month earlier because of interest generated by the NFL draft, as well as the Masters golf tournament that month. On all sites' radar is next month's World Cup soccer championships. SportsLine already has signed up \$1 million in ads for the games from eight

major sponsors, including Hewlett-Packard Co. and Sprint Corp.

In time, sports sites may yet prove to be the Super Bowl of the Internet. And media companies are at their chalkboards trying to figure out how to make the play work.

By Ronald Grover in Los Angeles



A photograph of a man lying in a hospital bed. He is wearing a patterned hospital gown and a white cervical collar. He has a white bandage wrapped around his forehead and a small white bandage on his right cheek. He is smiling at the camera. The bed has white pillows and a control panel on the left side. The background is slightly out of focus, showing a hospital room setting.

FRANK'S A LUCKY GUY.

NO PROMISES WERE BROKEN.

Commitments made, trust given in return.
Promises made and kept. It's basic to our philosophy.

We are not simply paper shufflers for hire. We ascribe to the highest standards of service, perhaps higher than you've come to expect from claims administrators. We check every box, make every phone call and follow every procedure because we know a claim delayed is suffering prolonged.

With local experts in 670 hometowns around the world, we stand ready to provide exactly what you need, exactly the way you need it. That is our promise, and we back it up with a money-on-the-table Performance Guarantee.

Whether property, liability or workers compensation, every claim represents individuals in distress. We are helping people reassemble their lives. We are acting for you, keeping your promises.



1-888-213-2533 • www.crawfordandcompany.com

EDITED BY AMY DUNKIN

FAR FROM THE GAMBLING CROWD

You come to Las Vegas expecting to lose money, right? Don't tell that to the more than 9,000 investors who in mid-May descended on Bally's for the Money Show, billed by promoters as "America's #1 Marketplace for Actionable Investment Advice." It was four days under the Big Top for mostly serious individuals bent on sampling the cornucopia of investment ideas on display.

Scores of advisers, data services, and mutual-fund companies brayed for attention with workshop titles like "Scrooge Investing" or "Why Women Make Better Investors." Companies as diverse as Intel and electric scooter maker ZAP Power Systems rented booths to promote themselves as investment possibilities. Meanwhile, in the center ring, celebrity Wall Streeters such as media mogul Michael Bloomberg and newsletter writers John Dessauer, Al Frank, and Michael Murphy flung market views and stock tips to the crowd at the behest of the sometime master of ceremonies, *Wall Street Week* host Louis Rukeyser.

SCARED. Before soothing one luncheon crowd with his steadfast bullishness, Rukeyser reminded them that "most people are scared to death about money." If so, many at the Money Show were dealing with their fear in dead earnest. Yes, some attendees did have that dazed look of half-fleeced sheep. One old guy, for example, had borrowed \$14,000 on a MasterCard to invest in oil and gas wells for retirement income. Then there were the crowds

around the exhibit booth for Castle Superstore, a group of seven "adult products" outlets hoping to raise \$5 million to expand. "Half the people in America won't visit our stores," its banner proclaimed. "We're making millions off the other half."

But far more popular were the dozens of outfits showing online investing software, sites, and services. And more typical were patrons like John McBurney, a retired Ford Motor executive who stopped on his way to a workshop to make a point: Big stocks, not small, are the key. McBurney said he started out a few years back with \$700,000 and plowed it into such megastocks as Citicorp and AT&T. How big is his account now? McBurney held up four fat fingers. "Four million," he said. "Look how well I've done, and I'm so stupid."

McBurney goes to these shows repeatedly to find new ideas. That's common. Money Show organizers claim more than half the attendees are repeat customers. Most are 55 or older, count a net worth of \$1 million or more, and manage a liquid investment portfolio of at least \$400,000. You'd think most want a hot stock to snap up, but I found little evidence of that. What impressed me about dozens of investors I met was their thoughtfulness and patience.

Take John Urquhart. A retired electrical distributor from Scottsdale, Ariz., who is focused on estate planning, Urquhart said he was mainly after "good strategies, to polish up what I'm doing." And Nick Muscato, a 42-year-old

software executive from Orlando, said the last time he attended a Money Show, comments from professional tech investors served to confirm his own industry research on companies like Dell Computer and Intel. "A lot of things they were saying really hit home," he said. At this show, he was searching out plays on banks that might be merger candidates.

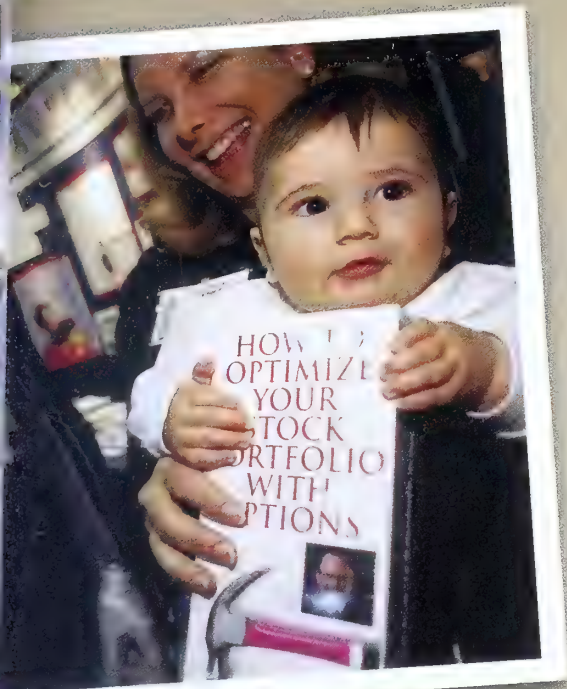
Sandeep Vijay, a Las Vegas internist who trades stocks and options, said he was all ears when mutual-fund managers at the show talked up stocks they had bought. But he added: "They want you to go buy stocks they already own, so the value of their fund goes up. Of course, they don't tell you this." He's counting on turnarounds at Boston Chicken and Novell. And Jill Wilson, with dough to invest since she sold her real estate development company, said she took careful notes on the stocks recommended by Rukeyser's lunchtime panel of experts. One such pick was Magna International, a Canadian autoparts maker that Louis Holland of Holland Capital Management thinks will benefit from the Chrysler-Daimler Benz merger. But Wilson was in no hurry to call her broker: "I'll probably go back home and look up some of these."

The sober approach of so many of the folks made me wonder what had happened to

the prototypical small investor: the odd-lotter who is always late, always wrong, and always the fool. "Much of Wall Street has been predicated on the myth of the dumb individual investor," observed Morningstar President Dan Phillips during a panel discussion on investing via the Internet. But technology's ability to deliver investment information broadly and cheaply is destroying that model, he said, and investment firms must adapt to survive.

In a similar way, the o





Hello, My Name Is

At the Money Show at Bally's in Las Vegas, small investors (left) searched out tips and tactics. Kim Githler (above) is president of the convention, and TV host Louis Rukeyser (below) was a master of ceremonies.



Show itself has been ed to evolve. It is the child of Charles Githler, looks as if he could be les Schwab's baby broth- and is a devotee of Ayn e, investors were drawn on gold and hard assets. Githler fig- there would be a mar- or symposiums not just ard assets but on stocks,

bonds, and mutual funds. As these conferences took off, they drew such pricey, high-visibility acts as economist Milton Friedman and another Rand believer, the pre-Federal Reserve Alan Greenspan.

Githler charged attendees accordingly—up to \$895 a head. At that price, hundreds, not thousands, turned out. Then came the crash of 1987, and attendance plunged. Also cutting into registrations was the growing savvy of investors, who found themselves able to get much of the same information more cheaply through TV, magazines, and,

ultimately, the Internet. "People were not willing to pay that kind of money anymore," recalled Githler's wife, Kim.

Pressed, the Githlers came up with a different idea. Why not make the shows cheap and easy for investors to attend and ask newsletter publishers, advisory firms, mutual-fund houses, and anyone else eager to get a message across to foot most of the bill? Sponsors would then offer clients free or low-cost tickets. The scheme clicked. By last year, the Githlers were staking their tent in Orlando, Las Vegas, Chicago, Seattle (think Microsoft millionaires), and

San Francisco, where a record 12,000 attend- ed. They offer cruises, plus a similar, barely profitable show on health topics. They also plan to launch a show for small business owners by 2000.

The Githlers' private Sara- sota (Fla.) company, Inter- Show, expects a net margin of 15% to 20% on revenue this year of \$10 million to \$12 mil- lion. "We are about a face-to- face experience, teaching peo- ple to take control of important and passionate ar- eas of their lives," said Kim Githler, who runs operations with a staff of 55.

Investors at the Money Show come looking "for an

edge," she said. "They're looking for an idea. Their energy is about achievement and getting the most out of what they're going to do." Evidence? Her group tends to gamble less than the standard Vegas crowd, a fact that she said is reflected in hotel room rates that are

20% higher than average.

But what of retirees who might lose money in some cockamamie oil venture or electric-scooter franchise? The admission standards for exhibitors are getting stricter, she said, but the process is mostly laissez-faire: "We're just continuing to allow the market to

squeeze out" the schlock, Charles Githler said. "Some are riskier than others."

Tony Sagami, president of HarvestAdvisors.Com, has attended shows frequently since 1988 and agrees that exhibitor quality has edged up. Yet he thinks the Githlers' business model still

hurts. Because they're "their revenue from the exhibitors and not the addressees, they are inadvertently attracting the rip-offs," he said. As chief beneficiary of the show, the Githlers are happy to let the patrons sort out the serious players from the clown acts. *Robert E.*

BOND GAMBITS FOR THE NEW EURO ZONE

The birth of the euro presents a challenge for managers of international bond funds.

When 11 European currencies converge into one on Jan. 1, managers will no longer be able to take advantage of differences among most currencies' values to diversify their holdings and boost investor returns. "That game is over," says Christopher Durbin, head of fixed income for J.P. Morgan in London.

But managers aren't running out of diversification strategies. They will still be able to broaden their portfolios by seeking out euro-denominated corporate and government bonds with varying credit ratings. And they'll still have a few currency plays left: Britain, Greece, and Sweden, while European Union members, aren't embracing the euro for now.

Take Maria Fiorini Ramirez, manager of Lexington Ramirez Global Income fund and the MFR group of funds. She is buying short- and long-term Greek government debt, which is yielding 950 and 300 basis points more than short and long German

SMART MONEY

government borrowings, respectively. She figures Greece will eventually slash its debt enough to qualify to join the European Monetary Union. When that happens, the yield spreads should collapse,

and Greek bonds will rally.

That's already happened in Italy. Traders used to view Italy as more economically and politically risky than Germany, so Italian government bonds paid investors sky-high yields. Only three years ago, these bonds yielded 525 basis points over their German equivalents. But when the Italians became committed to

cutting deficits as the condition for joining EMU, the yield differential shrank to today's 25 basis points.

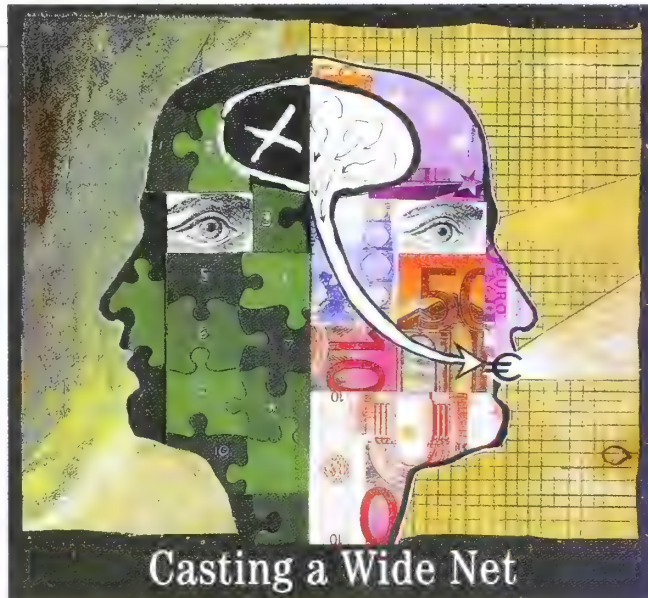
Ramirez also likes British government bonds and Danish mortgage debt; they offer higher yields than most other debt in Europe. And other managers are moving into Europe's budding corporate bond market. Worth \$325 billion now, it could ex-

ceed the \$2 trillion U.S. market in five years.

Loomis Sayles Global Fund manager John de Beer expects "the euro will open up the market to many companies that never issued bonds before," because investors won't have to deal with currency risk. Picking out undervalued bonds will enhance returns, while the wide choice of corporate issuers will help managers diversify their holdings, de Beer says. He owns the high-yield Deutsche mark debt of Geberit International, a Swiss maker of bathroom plumbing fixtures.

Until the corporate bond market develops more, managers are casting a wide net, looking at countries they hadn't considered previously. Given the progress in Eastern Europe, "there is actually more diversity than before," says Gabriel Irwin, co-manager of the Global Total Return and Prudential International bond funds. The number of countries he invests in has risen from 14 to 30 in the five years. Despite investor jitters lately, Irwin is buying dollar-denominated Russian government debt and is buying three-month, ruble-denominated paper, which yielded 2,700 basis points over German government bonds. He also has positions in local Polish and Hungarian government debt.

Many expect Eastern Europe to join the euro zone. But that remains some way off. Meanwhile, even as Western Europe draws together under the banner of one currency, the region still provides plenty of ways for savvy bond investors to boost their returns. *Toddi Gure*



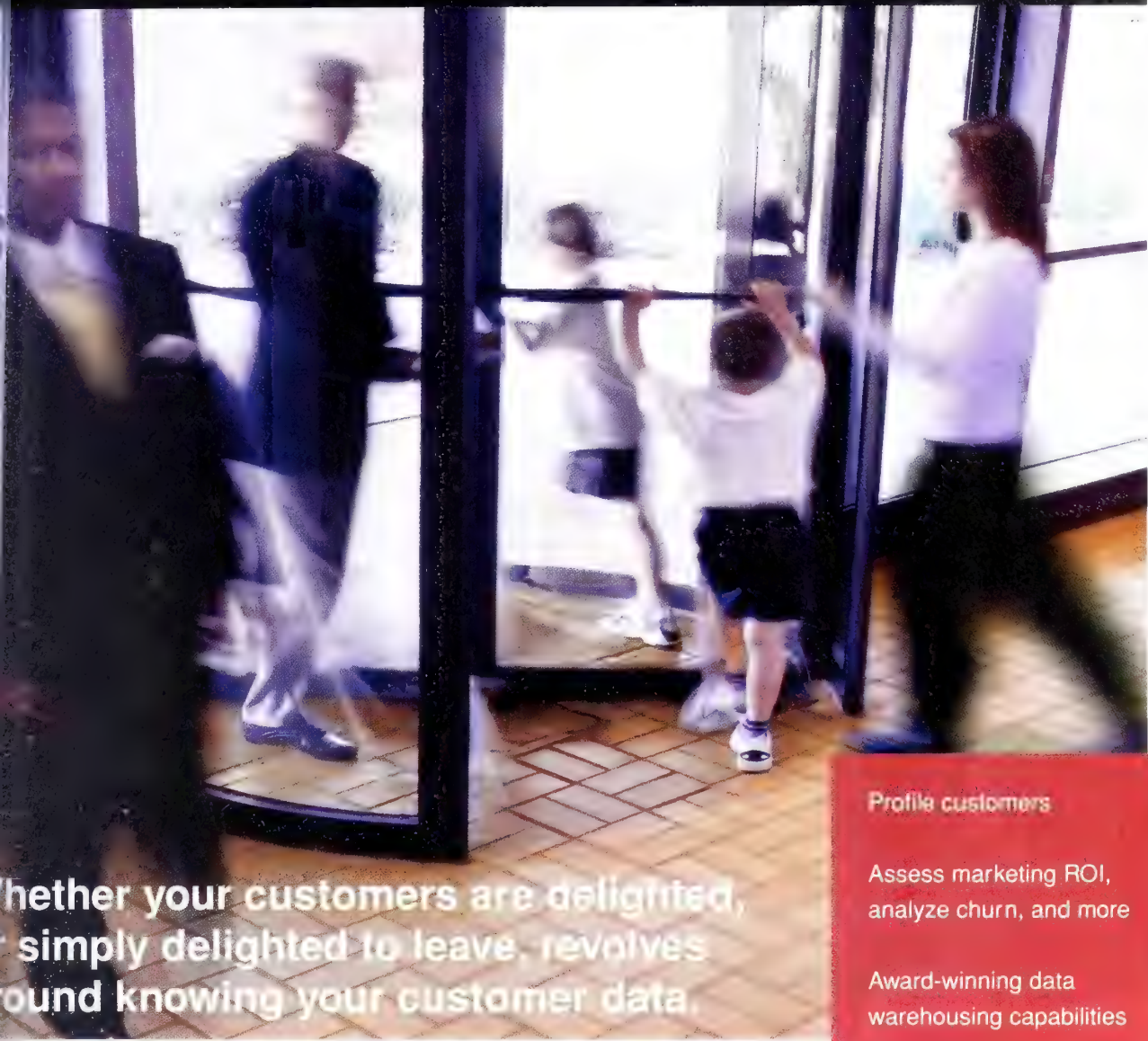
These funds have at least 30% of their portfolio invested in Europe and three-year annualized returns in the top quarter of the international bond category.

FUND	TOTAL RETURN*		FAVORITE COUNTRIES
	YEAR-TO-DATE	3-YEAR	
GLOBAL TOTAL RETURN A	3.98%	10.86%	Russia, Poland
LEXINGTON RAMIREZ GLOBAL INC.	3.89	12.40	Greece, Britain, Denmark
PRUDENTIAL INTL. BOND	3.92	10.84	Russia, Hungary

*Through Apr. 30

DATA: MORNINGSTAR INC.

Customer Relationship Management



Whether your customers are delighted,
or simply delighted to leave, revolves
around knowing your customer data.

That's why you need the SAS Solution

Who are your most profitable customers...and why? How many customers are you
losing...and why? What value do your customers see in your products and services...or
do your competitors? Instead of just storing your customer data, explore all the
capabilities with the SAS Solution for Customer Relationship Management.

The only software that integrates the full scope of managing customer relationships.
Collect information at all customer contact points...then analyze data to better understand
customer needs. Refine business strategies around your most profitable customers.
Determine lifetime customer value. All by just pointing and clicking.

Find out more, and request a free *Guide to Customer Relationship Management* with
the SAS Solution, visit us at www.sas.com/crm

Profile customers

Assess marketing ROI,
analyze churn, and more

Award-winning data
warehousing capabilities

Fully Web enabled

Year 2000 compliant



SAS Institute Inc.

The Business of Better Decision Making

www.sas.com/crm E-mail: bw@sas.com Phone 919.677.8200

SAS is a registered trademark of SAS Institute Inc. Copyright © 1998 by SAS Institute Inc.



CLICK HERE FOR COVERAGE

Scores of banks and securities brokers are chasing customers in cyberspace. Now, insurance companies are finally joining the race.

You can go online to shop for—and, sometimes, buy—term life policies and auto coverage. Matthew Morningstar, an analyst with market researcher Datamonitor, estimates that 60% of U.S. insurers will be selling over the Web by 2001. Fewer than 5% are now. “We know there are people out there who want to do this all online,” says Alan Bauer, Internet process leader for Progressive Corp., which is selling auto insurance in four states through its Web site (table).

Besides marketing policies through banks, such as Chase Manhattan, and brokers, including Charles Schwab, insurers are expanding their Web presence through a variety of quotation services.

QuickQuote and Quotesmith now provide the same information online that some companies supply via toll-free phone numbers. They will search through vast databases of life insurers for the least expensive term policies that meet your requirements. Insurers pay a commission for sales generated at these sites. Insurance malls, such as InsWeb and Intuit’s Insuremarket, also give comparative prices but only feature insurers that pay to be listed. That limits the number of carriers they quote: just seven life insurers at Insuremarket, nine auto insurers at InsWeb.

If you’re shopping for insurance online, here’s what you can expect to find:

LIFE INSURANCE: Term insurance, which pays your beneficiaries a set sum if you die, continues to be the dominant offering on the Net. It pays to check several sites to find the best deal. If you search for a policy through Insuremarket, say, you must first an-

swer 22 questions that include your age, weight, and family history of illness. The number of quotes you get will vary, depending on your answers and home state. A healthy, non-smoking 45-year-old woman living in Illinois looking for \$500,000 of term coverage for 20 years would receive six guaranteed level-premium quotes ranging from \$605 a year from John Hancock to \$980 from Prudential. The site also provides links to credit rating agencies that gauge insurers’ financial strength.

The prices you’ll find online aren’t any cheaper than if you went to a carrier directly. But the shopping is more convenient. Once you find an acceptable price, it takes about five minutes to apply for coverage. Of course, some things you can’t do over the Net: You’ll need to book a medical exam, either online or over the phone. Once the test results are in, you should hear back within two weeks on whether you were approved.

AUTO INSURANCE:

Online options for this \$110 billion market are limited. Sites like auto-insurance.com and insureone.com assemble prices from information filed with state insurance commissioners. But since their initial questionnaires aren’t very detailed, carriers don’t always honor the quotes. By contrast, InsWeb asks 91 questions at its site, and “if you get a quote, the insurance company

will honor it,” says InsWeb spokesman Greg Beran.

Corporate Web sites generally ask for your E-mail address to send back a quote. Many will just give a number or names of agents you can contact. Progressive, however, will give you a quote along with comparative prices from competitors. It is licensed to sell policies only to motorists in California, Virginia, Minnesota and Ohio. If you want your new Lexus on the line now, Bauer says the company can verify your information and put the policy in force by 12:01 a.m. the day after you supply your credit card number. The company (www.progressive.com) is to roll out online transactions in the 43 other states in which it operates as quickly as possible.

If all your surfing leads to deals with auto insurers you’ve never heard of, keep in mind that state insurance commissions rate companies by how well they service large claims. You can get access to state-by-state ratings from the Web pages of the

National Association of Insurance Commissioners (www.naic.org).

Although term life insurance and term life coverage are making their way online, you still will find much online Web regarding health coverage and life insurance that builds on cash value. For details about products and an invitation to receive more information by e-mail or phone. Expect that to change. As insurers shake the hang of marketing simple policies online, more complicated products will surely follow. *Andrew Osterman*

Where to Go for Insurance Info

GETTING STARTED

www.yahoo.com

Lists huge number of insurance-related Web sites

QUOTE SERVICES

www.quotesmith.com

www.quickquote.com

Large number of quotes for term and whole life insurance

MALLS

www.insweb.com

www.insuremarket.com

Information, quotes, and transactions in multiple lines of insurance



IF YOUR PAGING SERVICE ISN'T GUARANTEED,
YOU COULD BE MISSING SOME IMPORTANT MESSAGES.

...ds, Romans, Countrymen - SkyWord Plus from SkyTel is the first nationwide paging service that guarantees you'll get all your messages. If your pager's been off, your batteries have died or you've been out of range, SkyWord Plus stores your messages and automatically delivers them to you when you return to full service. And all of this costs less than most ordinary paging. So get SkyTel. Get the message, guaranteed. Limited-time offer: Call now and get a personal 800/888 number for free.

Caller I.D.
Now Available.

FEATURES	SKYWORD PLUS SERVICE
Guaranteed Delivery	Yes
E-Mail On Your Pager	Yes
Protection Against Garbled Messages	Yes
Monthly Cost	\$24.95

SkyTel 

Call 1-800-815-9541
or visit www.skytel.com

MAKE A BID, BUT DON'T PACK YOUR BAGS

Priceline.com is less than two months old—and is already one of the hottest consumer sites on the Internet. It invites travelers to offer what they're willing to pay for an airline seat and then searches its database to see if it can meet the bids. Someday, such online auctions may change the way people travel. But despite priceline's claim that it's "designed for everyone," so far, it doesn't live up to the hype.

Although it's billed as the new way to find low airfares, priceline allows you to pick only the dates you want to travel, not the time you want to leave. If your bid is rejected, you can't make a higher offer for the same ticket. If it's accepted, your credit card is charged before you know what you bought—meaning you could be stuck with a 6:30 a.m. departure and a 90-minute stopover taking you hundreds of miles out of your way.

The conditions mean those most likely to benefit from priceline's auction process are students, senior citizens, or other travelers who can be flexible on timing and don't put a premium on convenience. Priceline does guarantee you'll fly on one of the nine largest U.S. carriers or a major international airline. But while Chairman Jay Walker says "there is no airline in America that is not talking to us," American, Delta, United, and others have refused to work with

priceline. Industry executives say that only America West and Trans World Airlines, among domestic carriers, give priceline unpublished low fares.

So on many routes, priceline has no better access to cheap seats than a conventional travel agency.

Still, priceline represents an important step forward in

needed to travel to Atlanta on business. Even though he was willing to stay over on a Saturday night to get a cheap fare, the best he could find was \$600. He bid \$165 on priceline and the offer was accepted. "It was a great deal," says Auffenberg.

Before you sign onto priceline, call a few airlines and get their best offers, or

TRAVEL

search the Net. Travelocity (www.travelocity.com) and other online travel sites allow you to obtain schedules and fares for more than one airline. One helpful site is www.1travel.com, which can

tell you whether you can save by shifting your flight by a few hours or a day. Also check the part of Expedia's site (expedia.msn.com) listing the lowest published fare on a given route, though this list has so many restrictions it's likely to be useful only for purposes of comparison.

I tried out priceline for a friend, who is looking to travel between Washington and Houston this summer. The lowest published round-trip fare is \$178, according to Expedia. But the best I could obtain was \$296 on US Airways via Pittsburgh. So I went to priceline and bid \$230 before taxes (up to another \$20). Priceline proved easy to navigate despite a number of bugs that left me looking at occasional



the development of buying tickets online. The site attracted more than 1 million visitors in the week after its Apr. 6 launch and has sold more than 10,000 tickets. One went to Bob Auffenberg, a resident of St. Louis who

How To Use Priceline

► Be flexible when you plan your trip. Priceline doesn't give you any control over what time of day you'll be flying.

► Check fares on the Internet or by calling airlines. Then submit a bid to www.priceline.com below the price you want to get—but still above the lowest published fare on the route.

► You should hear back from priceline in about an hour. But while you hunt around, you may want to make a conventional reservation. You can always buy that ticket if your priceline bid isn't accepted.

► Don't submit unrealistic bids. Priceline won't allow you to submit a second bid for the same

error messages and let the "back" button of your browser.

Some users have submitted bids that were never answered or had their credit cards rejected for unknown reasons. But an hour after I submitted my bid, I got an E-mail back. The verdict: rejection—the same as I got on offers I submitted three other trips. If your bid is rejected, you can submit a higher bid only if you can prove one of your travel dates. My experience wasn't unusual. *Best Fares* magazine, which offers tips on finding cheap airline seats, invited readers to relate their priceline experiences. None reported their bids were accepted.

The bottom line: If you're more flexible than most travelers, give priceline a try. Making a bid takes about 15 minutes. If your bid is turned down, you lose nothing. Just don't get discouraged by the site's high rejection rate. *David Leonard*

WORTH NOTING

■ **THE WIDE WORLD OF THE S&P.** Just because most Standard & Poor's 500 companies are U.S.-based, don't expect your S&P fund to insulate you from swings in the global economy. "If you invest in the S&P, you own a diversified global portfolio," says Morgan Stanley Dean Witter analyst Deborah Weinswig. She studied 329 companies that make up 77% of the S&P's market cap. About 23% of their revenues are outside North America. Asia accounts for 7% of sales, something to watch as turmoil sweeps the region. Fortunately, S&P members garner 13% of sales in Europe, where the economy is booming.

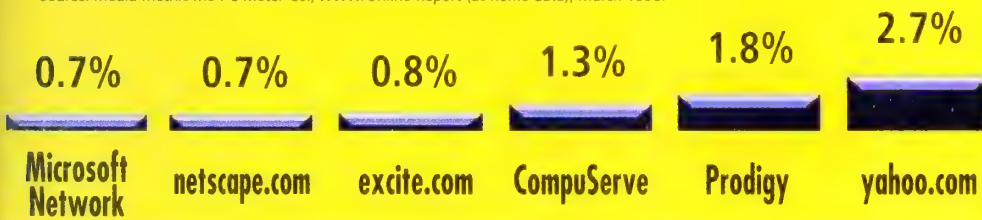
AMERICA ONLINE: RATED #1 ON THE INTERNET

53.2%



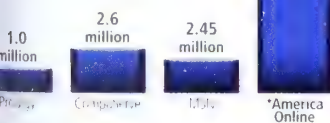
Share of the Online Minutes: (Average Minutes Online)

Source: Media Metrix/The PC Meter Co., WWW/Online Report (at-home data), March 1998.



**America
Online**

How Today's Online Leaders Compare: (Number of Subscribers)



Source: Jupiter Communications, February 1998. *Company Estimate.

For more information about our broad range of marketing programs in cyberspace, please call Phil Frank, Eastern Regional Sales at 2-206-4443 or Randy Dean, Western Regional Sales at 650-287-4239.

Internet Online ratings show that people choose America Online more than any one else on the Internet. With an audience of over 11 million members, and with daily member usage averaging 45 minutes, America Online is the clear choice to connect with your customers. For more information about our broad



So effective,
no wonder it's #1



BizLink

Unless, of course, you actually enjoy filling out forms.

Want advertiser information now, without having to fill out one of those pesky reader service cards? Connect with BizLink, Business Week's new electronic reader service fulfillment system. You'll get the information you need the way you want it—by fax, phone, mail, or e-mail. It's free, it's fast and nothing could be simpler. **Why wait?**

Access BizLink now:

www.businessweek.com/BizLink/

BusinessWeek

Most Read. Best Read. Worldwide.

And if you don't have an Internet connection, just call 1-800-848-6708.

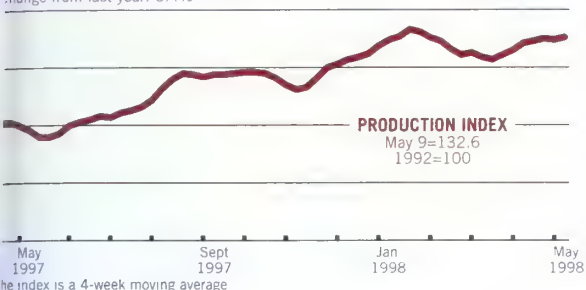
June 1, 1998

1 3Com	14 Mississippi Department of Economic & Community Development	25 THUNDERBIRD The American Graduate School of International Management	103 Catellus Development Corporation
2 Adobe Systems, Inc.	15 Mita Copystar America	26 The Timken Company	104 Central and South West Corporation
3 Air Liquide	16 M.O.D.E.D., Missouri Department of Economic Development	27 Trend Microsystems	105 Cleco Corporation
4 American General Insurance	17 Network Associates	28 Vantive Corporation	106 Fannie Mae
5 Charles Schwab	18 Praxair	29 UUNET Technologies	107 Man Sang Holdings, Inc.
6 Clarify Inc.	19 QAD Inc.	Internet Only	108 MedCare Technologies, Inc.
7 Crawford & Co.	20 Rockwell Corporation	30 Amoco Chemicals	109 Norfolk Southern Corporation
8 Datek Online	21 SAS Institute, Inc.	Annual Report Directory	110 NOVA Corporation
9 Defined Assets SM - Premier American Portfolio	22 Savin	101 Agouron Pharmaceuticals, Inc.	111 Saint-Gobain
10 Founders Growth Fund	23 SDRC	102 Cable Design Technologies	112 Scientific-Atlanta, Inc.
11 GTE Internetworking	24 SPT Telecom		113 Sears, Roebuck and Co.
12 Lexus CPO			114 Southern Company
13 MCI Data			115 VEBA
			116 Wang Global

Business Week Index

PRODUCTION INDEX

Change from last week: 0.2%
Change from last year: 6.4%



Production index rose in the week ended May 9. Before calculation of the week moving index, the unaveraged index showed a 1% increase to 132.7, from 132.4 in the previous week. After seasonal adjustment, output of autos and trucks advanced. Electric power was also up, by 2.8%, with a 1% jump in production in the south central region. On the downside, oil, coal, lumber, and rail-freight traffic showed decreases.

Source: Index compiled by The McGraw-Hill Companies

ADING INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STOCK PRICES (5/15) S&P 500	1108.73	1108.14	33.6
CORPORATE BOND YIELD, Aaa (5/15)	6.74%	6.72%	-10.7
KEY SUPPLY, M2 (5/4) billions	\$4,161.6	\$4,164.9r	7.1
LEGAL CLAIMS, UNEMPLOYMENT (5/9) thous	307	309r	-3.8
MTG APPLICATIONS, PURCHASE (5/15)	254.8	279.2	32.7
MTG APPLICATIONS, REFINANCE (5/15)	1,138.7	1,297.0	242.5

Sources: Standard & Poor's, Moody's, Federal Reserve, Labor Dept., Mortgage Bankers Assn. (Index: March 16, 1990=100)

INTEREST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
FEDERAL FUNDS (5/19)	5.35%	5.54%	5.51%
COMMERCIAL PAPER (5/19) 3-month	5.51	5.50	5.69
CERTIFICATES OF DEPOSIT (5/20) 3-month	5.59	5.59	5.68
FIXED RATE MORTGAGE (5/15) 30-year	7.22	7.18	8.08
ADJUSTABLE MORTGAGE (5/15) one-year	5.87	5.80	6.08
REVERSE (5/15)	8.50	8.50	8.50

Sources: Federal Reserve, HSH Associates, Bloomberg Financial Markets

All data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

THE WEEK AHEAD

HOUSING HOME SALES

Monday, May 26, 10 a.m. EDT ▶ Sales of new homes probably fell to an annual rate of 4.75 million in April, from 4.89 million in March, according to the median forecast of Standard & Poor's MMS, a division of The McGraw-Hill Companies. Thanks to a winter and low mortgage rates, resales were very robust in the first quarter.

CONSUMER CONFIDENCE

Monday, May 26, 10 a.m. EDT ▶ The Conference Board's index of consumer confidence likely slipped to a reading of 135 in April from 136.7 in March. Confidence remains quite high, however, supported by consumers' belief in a strong job market.

DURABLE GOODS ORDERS

Thursday, May 28, 8:30 a.m. EDT ▶ New orders taken by durable-goods manufacturers probably increased 0.5% in April, says the median S&P MMS forecast. Orders rose 0.4% in March. New bookings have flattened out recently as the impact from Asia starts to hit U.S. manufacturers.

GROSS DOMESTIC PRODUCT

Thursday, May 28, 8:30 a.m. EDT ▶ The S&P MMS median forecast expects that the Commerce Dept.'s first revision to economic growth will show that real GDP grew at a 4.6% annual rate, instead of the originally reported 4.2%. Part of the increase will

come from stronger consumer spending as well as more inventory accumulation than first estimated. But a larger trade gap will subtract from growth. Aftertax corporate profits likely grew just 0.5% in the first quarter, after falling 2.3% in the fourth.

PERSONAL INCOME

Friday, May 29, 8:30 a.m. EDT ▶ Personal income probably increased 0.3% in April, the same gain as in March. That's suggested by the gains in jobs and weekly pay for the month. Consumer spending most likely rose 0.5% in April, also the same increase as in March. The spending gain is suggested by strong motor vehicle sales and solid retail buying.

PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (5/16) thous. of net tons	2,135	2,193#	3.5
AUTOS (5/16) units	121,413	125,158r#	-8.0
TRUCKS (5/16) units	149,851	151,271r#	17.8
ELECTRIC POWER (5/16) millions of kilowatt-hrs	60,832	58,363#	6.4
CRUDE-OIL REFINING (5/16) thous. of bbl./day	15,034	14,920#	1.5
COAL (5/9) thous. of net tons	21,487#	21,876	2.2
LUMBER (5/9) millions of ft.	459.5#	494.1	-8.6
RAIL FREIGHT (5/9) billions of ton-miles	27.3#	27.8	4.6

Sources: American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, American Petroleum Institute, Energy Dept., WWPA1, SFPA2, Association of American Railroads

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (5/20) \$/troy oz.	299.600	299.100	-12.6
STEEL SCRAP (5/19) #1 heavy, \$/ton	135.50	135.50	-2.2
COPPER (5/15) ¢/lb.	81.6	85.0	-30.1
ALUMINUM (5/15) ¢/lb	66.5	68.5	-16.7
COTTON (5/16) strict low middling 1-1/16 in., ¢/lb.	64.73	63.71	-7.0
OIL (5/19) \$/bbl.	12.74	15.16	-38.7
CRB FOODSTUFFS (5/19) 1967=100	240.35	239.07	1.3
CRB RAW INDUSTRIALS (5/19) 1967=100	305.35	304.79	-10.1

Sources: London Wednesday final setting, Chicago market, Metals Week, Memphis market, NYMEX Commodity Research Bureau

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (5/20)	135.79	134.10	113.72
GERMAN MARK (5/20)	1.77	1.78	1.69
BRITISH POUND (5/20)	1.65	1.63	1.65
FRENCH FRANC (5/20)	5.94	5.96	5.70
ITALIAN LIRA (5/20)	1746.0	1754.0	1666.5
CANADIAN DOLLAR (5/20)	1.45	1.44	1.37
MEXICAN PESO (5/20)	8.640	8.516	7.861
TRADE-WEIGHTED DOLLAR INDEX (5/20)	111.3	110.9	102.2

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars. Trade-weighted dollar via J.P. Morgan

This Week, Online

Business Week presents frequent live conferences and chats on America Online—your opportunity to ask questions about timely topics.

BusinessWeek ONLINE

Sunday

Business Week Enterprise, the edition especially for small business and entrepreneurs, presents another of its useful and informative chats, as part of AOL's WorkPlace Weekend program. **May 24**
9 p.m. EDT

Thursday

It's the day to discuss investments, every week. This time, find out what Jim Cramer, co-chairman of online financial publication TheStreet.com and a Wall Street hedge fund manager, is buying and selling these days—he's an investor to watch. **May 28**
9 p.m. EDT

AOL keyword: BW Talk

Transcripts of all conferences are available for downloading from the BW Online area on AOL soon after each event.

For a free trial diskette including 50 free hours on AOL, call 1-800-641-4848 and mention Business Week.



Index to Companies

This index gives the starting page for a story or feature with a significant reference to a company. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

A

ABN Amro 50
Acer/Exel 74
AIM Capital Development Fund 70
Alliance Capital Management 56
Amazon.com (AMZN) 14
America Online (AOL) 14, 50, 152, 170
America West (AWA) 164
American Airlines (AMK) 164
Ameritech (AIT) 42
AMG Data Services 56
Amgen (AMGN) 144
Andersen Consulting 48, 78
Apex PC Solutions 86
ARIS (ARSC) 78
AT&T (T) 50, 158, 170

B

BankAmerica (BAC) 42
BankAmerica Robertson Stephens (BAC) 116
Bank of New York (BK) 50
Barnes & Noble (BKS) 14
Bear Stearns (BSC) 44, 50
Birinyi Associates 124
BOC Group (BOC) 110
Boeing (BA) 48, 78
Booz-Allen & Hamilton 142
Boron LePore (BLPG) 70
Boston Chicken (BOST) 158
Bowles Hollowell Conner 6
Bradford (J.C.) 74
Brass Eagle (XTRM) 76
Bristol-Myers Squibb (BMY) 70, 146
British Telecommunications (BTY) 152
Brother Industries 144
Burger King 106
BZW 124

C

Cascade Engineering 102, 106
Caspian Research 52
Castle Superstore 158
CBS (CBS) 155
Centocor (CNTO) 147
Cessna Aircraft (TXT) 102, 104
Champagne Mumm 110
Charles River Associates 42
Chase Manhattan (CMB) 140, 162
Chase Securities (CMB) 44
China Aerospace 51
Christie's Great Estates 140
Chrysler (C) 42
Cisco Systems (CSCO) 14, 70, 116
Clorox (CCI) 42, 56, 142, 158
Clorox (CLX) 144
CNBC 124
CNN (TWX) 14, 124
Coast Dental Services (CDEN) 70
Coca-Cola (KO) 110, 170
Compaq Computer (CPQ) 86, 116
Compare.net 38
CompuServe (CSRV) 152
Computer Associates (CA) 70
Computer City 8
Computer Learning Centers 14
Computer Sciences (CSC) 152
Comsat 110
Conning 142
Coopers & Lybrand 140
Cray Research 116
CSX (CSX) 52

D

Daimler Benz (DAI) 42
Dain Rauscher Wessels 76
Daisy Manufacturing 76

D

Daiwa Securities 52
Datamonitor 162
Dataquest 116
Dell Computer (DELL) 86, 116, 158
Deloitte & Touche 124
Delta Air Lines (DAL) 164
Deutsche Morgan Grenfell 124
Digital Equipment (DEC) 116
DMG Technology 78
Dover Downs Entertainment (DVD) 82
Dreyfus 124
Dunn Computer (DNCC) 70
DuPont (DD) 50, 144

E

Eastman Kodak (EK) 50
Electronic Data Systems (EDS) 78
Eli Lilly (LLY) 116, 146
EMC (EMC) 116
Erfolg 8
ESPN 76, 155
Excite (XCIT) 38

F

Ford (F) 50, 52
Forrester Research (FORR) 142
Fruit of the Loom (FTL) 144

G

Gateway 2000 (GTW) 27
Gebert 160
Genentech (GNE) 146, 147
General Electric (GE) 152
General Foods 124
General Instrument (GIC) 8
Giant Food (GFS) 50
Giga Information 38
Global Business Network 38
Global Total Return Fund 160
Goldman Sachs 124, 134
Greenwich Associates 124
GTE (GTE) 50, 152
Guy Cotten 110

H

Haight Gardner Holland & Knight 140
Hall Kinion (HAKI) 70
Harns 86, 116
Harns Organization 136
HarvestAdvisors Com 158
Heartland Advisors 70
Hertz (F) 104
Hewlett-Packard (HWP) 52, 86, 116, 155
Hicks Muse Tate & Furst 50
Hilton Hotels (HLT) 70
Hirsch International (HRSH) 144
Holland Capital Management 158
Hughes Electronics (GMH) 48, 116

I

IBM (IBM) 86, 116, 155, 170
IDEC Pharmaceuticals (IDPH) 147
ILEX Oncology 147
Immunomedics 147
Insweb 142
Intel (INTC) 50, 158
International Data 86, 116
International Speedway (ISOA) 82
InterShow 158
Intur (INTU) 162

J

Jardine Fleming 60
JDA Software (JDAS) 70
John Hancock 50, 162
Jupiter Communications 155
JW Charles Securities 144

K

Kendle International (KNDL) 70, 74
KFC (PEP) 104
Kmart (KM) 76

L

Ladenburg Thalmann 78
Lafayette Industries 88
Lehman Brothers (LEH) 147
LeukoSite 147
Lexington Ramirez Global Income Fund 160
L.L. Bean 1548
Lockheed Martin (LMT) 42, 78
Loomis Sayles Global Bond Fund 160
Loral (LOR) 51
Lotus Development (IBM) 116
Lucent Technologies (LU) 70
LXD 110

M

Magna International (MGA) 158
Manpower Research 102
Mars 6
Mayfield Funds 38
McGraw-Hill (MHP) 92, 167
MCI Communications (MCIC) 42, 152
Medical Manager (MMGR) 70
Medimmune 147
Melita International (MELI) 78
Mellon Bank (MEL) 50
Menlo Ventures 152
Merck (MRK) 50
Merrill Lynch (MER) 88, 116, 144
MFR 160
MFS Communications 152
MGM Grand (MGG) 70
Micrel Semiconductor (MCRL) 88
Microsoft (MSFT) 14, 27, 38, 40, 48, 78, 86, 170
Mirage Resorts (MIR) 70
Mitsubishi 27
Monarch Dental (MDDS) 70
Monsanto (MTC) 144
Morgan (J.P.) (JPM) 160
Morgan Stanley Dean Witter (MWD) 58, 164
Morningstar (MSTR) 158
Motorola (MOT) 8, 48, 52
MTV 76

N

Nashville Speedway USA 82
National Semiconductor (NSM) 52, 116
NationsBank (NB) 42
NBA 155
NetManage (NETM) 88
Netscape Communications (NSCP) 38, 40
New Line Cinema (TWX) 70
News Corp (NWS) 155
Northern Telecom (NT) 116
Northern Trust (NTRS) 44
Northrop Grumman (NOC) 42
Norwegian Cruise Lines 140
Novell (NOVL) 158

O

Office Depot (ODP) 42
Omni Energy Services (OMNI) 70
Oracle (ORCL) 78, 116
OshKosh B'Gosh 144

P

Pacific Crest Securities 78
Parke Davis 70
Parlux Fragrances 88
Pearson 50
Penguin Books 50
Penske Motorsports (SPWY) 82
PepsiCo (PEP) 170
Phillips Petroleum (P) 44
PJ America (PJAM) 70
PNC Bank 104
Prestige Cable 8
Priceline com 164
Primestar 42

Progressive (PGR) 162

Prudential 162
Prudential International
PSINet 152

Q, R

Qualcomm (QCOM) 116
QuickQuote 162
Quotesmith 162
ResidentSea 140
RJR Nabisco (RJR) 110
Robertson Stephens Micro Growth Fund 70
Rockwell International (R) 140
Royal Ahold 50

S

Safeskin (SFSK) 88
Salomon Smith Barney (S) 136
SAP 116
SBC Communications (SBC) 116
Schering-Plough (SGP) 116
Schooner Asset Management
Schuff Steel (SHUF) 70
Schwab (Charles) (SCH) 116
Shorex 136
Silicon Graphics (SGI) 116
Simon & Schuster 50
SocGen-Crosby Securities
Sony (SNE) 27
SoundView Financial 116
Sportsline USA (CBS) 158
Springs Industries (SMI) 116
Sprint (FON) 152, 155
Ssangyong Investment 50
Standard & Poor's (MHP) 116, 142, 146, 167
Staples (SPLS) 42
Starwave 155
Strong Capital Management
Sun Microsystems (SUNW) 116

T

TA Associates 86
Tajima Industries 144
TAP Pharmaceuticals 148
Teal Group 48
Tele-Communications (TOC) 116
TeleSonic 48
3Com (COMS) 116
Time Warner (TWX) 70, 158
Tivoli Systems 116
Travelers Group (TRV) 42, 116
Travelocity 164
T. Rowe Price (TROW) 124
TWA (TWA) 164
Tyson Foods (TSN) 24

U

UAL (UAL) 102
United Airlines (UAL) 164
UPS 102, 104
USA Detergents (USAD) 14
UUNET Technologies 152

V

VIA Technologies 50
Volvo 110

W

Wal-Mart Stores (WMT) 76
Walt Disney (DIS) 155
WavePhore 27
Westin Hotels & Resorts 116
Weyerhaeuser (WY) 78
Williams Communications Solutions 78
World City 140
WorldCom (WCOM) 42, 152
Wrangler 110

Y

Yahoo! (YHOO) 14, 155
Yankee Group 8
YTL 52
Yune Systems (YURI) 70

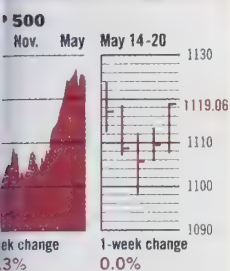
Z

ZAP Power Systems (ZAPP) 116
Zeneca (ZEN) 144, 146

Business Week (ISSN 0007-7135) published weekly, except for one week in January and one in August, by The McGraw-Hill Companies, Inc. Executive, Editorial, Circulation, and Advertising Offices: 1221 Avenue of the Americas, New York, N.Y. 10020. U.S. subscriber rate \$54.95/year; Canada \$69.95/year. Periodicals postage paid at New York, N.Y., and at additional mailing offices. Postage paid at Montreal, P.Q. Canada Post International Publications Mail Product Sales Agreement No. 246484. Postmaster: Send address changes to BUSINESS WEEK, P.O. Box 430, Hightstown, N.J. 08520.

Investment Figures of the Week

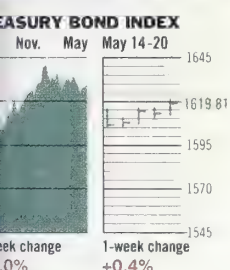
STOCKS



MENTARY

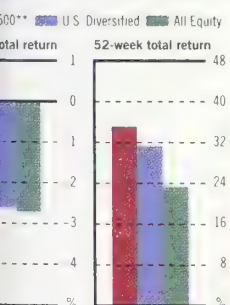
Low Jones industrials gained 117 points on May 20, best performance in nearly 12 months. But it wasn't enough to bring the market back to the high of 9211.8 set just a week ago. The Fed's May decision to leave rates unchanged made little impression on equity investors, but it buoyed the bond market, which had been worrying about inflation—falling commodity prices and dampen inflation fears, New worry for the stock market: profit problems at high-tech, high-tech leaders such as Hewlett-Packard.

INTEREST RATES



Bloomberg Financial Markets

MUTUAL FUNDS



Morningstar, Inc.

are as of market close Wednesday, May 20, 1998, unless otherwise indicated. Industry include S&P 500 companies only. Fundamentals, technical indicators, Bloomberg mon-

U.S. MARKETS

	Latest	Week	Year
Dow Jones Industrials	9171.5	-0.4	25.8
NASDAQ Combined Composite	1831.8	-1.8	33.3
S&P MidCap 400	367.0	-1.5	34.7
S&P SmallCap 600	195.8	-2.1	30.3
S&P SuperComposite 1500	239.0	-0.2	33.3

SECTORS

	Latest	Week	Year
Bloomberg Information Age	342.8	-2.7	32.4
S&P Financials	135.9	1.6	45.6
S&P Utilities	235.7	-0.7	23.1
PSE Technology	348.0	-3.8	26.2

FOREIGN MARKETS

	Latest	Week	Year
London (FT-SE 100)	5907.4	-1.1	27.3
Frankfurt (DAX)	5511.0	2.5	53.2
Tokyo (NIKKEI 225)	15,653.0	2.0	-21.1
Hong Kong (Hang Seng)	9549.2	0.8	-32.9
Toronto (TSE 300)	7695.4	-0.2	22.0
Mexico City (IPC)	4607.3	-3.1	15.9

FUNDAMENTALS

	Latest	Week	Year
S&P 500 Dividend Yield	1.41 %	1.40 %	1.77 %
S&P 500 P/E Ratio (Last 12 mos.)	26.4	26.7	21.3
S&P 500 P/E Ratio (Next 12 mos.)*	21.6	21.7	17.5
First Call Earnings Revision*	-1.20 %	-0.97 %	-1.03 %

TECHNICAL INDICATORS

	Latest	Week	Reading
S&P 500 200-day average	996.6	992.4	Positive
Stocks above 200-day average	55.0 %	59.0 %	Neutral
Options: Put/call ratio	0.59	0.58	Negative
Insiders: Vickers Sell/buy ratio	2.71	2.86	Neutral

Data: Bloomberg Financial Markets; *First Call Corp.

BEST-PERFORMING GROUPS

	Last month %	Last 12 months %
Specialty Appar. Retailers	9.9	Specialty Appar. Retailers 109.5
Defense Electronics	8.7	Broadcasting 96.5
Automobiles	8.5	Personal Loans 75.4
Savings & Loans	5.8	Homebuilding 75.3
Genl. Merchandise Chains	5.8	Defense Electronics 73.9

WORST-PERFORMING GROUPS

	Last month %	Last 12 months %
Metals	-13.4	Metals -39.2
Transportation Services	-13.2	Gold Mining -20.0
Oil & Gas Drilling	-13.2	Shoes -19.4
Oil Exploration & Prod.	-10.7	Tobacco -18.4
Airlines	-10.3	Engineering & Constr. -14.8

BLOOMBERG MONEY FLOW ANALYSIS

Rebound ahead? Stocks with most significant buying on price weakness

	Price	1-month change
Citicorp	155 1/2	-2 1/2
BankAmerica	83 1/4	-5 1/16
Gateway 2000	50 1/8	-5/8
Wells Fargo	372	-10
Texas Instruments	58 7/16	-2 15/16
Exxon	72 7/16	-5/8

Decline ahead? Stocks with most significant selling on price strength

	Price	1-month change
Dell Computer	94 19/32	24 29/32
WorldCom	44 17/32	17/32
Cisco Systems	80 29/64	8 9/64
Washington Mutual	71 7/8	2 1/4
Abbott Laboratories	75 1/16	2
Compaq Computer	30 1/8	4 1/8

BLOOMBERG MUNI YIELD EQUIVALENTS

Taxable equivalent yields on AAA-rated, tax-exempt municipal bonds, assuming a 31% federal tax rate.

	10-yr. bond		30-yr. bond	
	Latest week	Last week	Latest week	Last week
GENERAL OBLIGATIONS	4.46%	4.51%	5.03%	5.10%
PERCENT OF TREASURIES	79.47	79.52	85.30	85.86
TAXABLE EQUIVALENT	6.46	6.54	7.29	7.39
INSURED REVENUE BONDS	4.58	4.66	5.19	5.27
PERCENT OF TREASURIES	81.60	82.17	88.01	88.72
TAXABLE EQUIVALENT	6.64	6.75	7.52	7.64

KEY RATES

	Latest week	Week ago	Year ago
MONEY MARKET FUNDS	5.10	5.10	5.12
90-DAY TREASURY BILLS	5.19	5.12	5.11
6-MONTH BANK CDS	5.08	5.09	5.23
1-YEAR TREASURY BILLS	5.40	5.44	5.76
10-YEAR TREASURY NOTES	5.61	5.64	6.72
30-YEAR TREASURY BONDS	5.89	5.95	6.96
LONG-TERM AA INDUSTRIALS	6.48	6.51	7.49
LONG-TERM BBB INDUSTRIALS	6.90	6.94	7.90
LONG-TERM AA TELEPHONES	6.74	6.78	7.71

EQUITY FUNDS

Leaders	Four-week total return	%	Laggards	Four-week total return	%
IAI Value	25.3		Lexington Troika Russia	-27.3	
American Heritage	16.7		Steadman Technology Grth.	-18.3	
IAI Balanced	7.6		Matthews Korea I	-17.2	
American Heritage Growth	6.7		Invesco Asian Growth	-15.9	
Berger Select	4.7		Colonial Newport Tiger C	-15.2	
Leaders	52-week total return	%	Laggards	52-week total return	%
FMI Focus	77.5		Matthews Korea I	-61.5	
Weitz Hickory	76.8		U.S. Global Investors Gold	-55.2	
Munder Micro-Cap Equity Y	73.3		Lex. Crosby Sm. Cap Asia	-54.6	
Texas Capital Val. & Grth.	68.1		Morgan Stan. Asian Grth. C	-52.9	
Safeco Growth No Load	67.2		Morg. Stan. Inst. Asia Eq. A	-52.9	

EQUITY FUND CATEGORIES

Leaders	Four-week total return	%	Laggards	Four-week total return	%
Europe	-1.0		Latin America	-11.2	
Domestic Hybrid	-1.0		Pacific/Asia ex-Japan	-11.0	
Real Estate	-1.0		Diversified Emerging Mkts.	-9.8	
Health	-1.2		Precious Metals	-8.0	
Large-cap Growth	-1.3		Diversified Pacific/Asia	-7.4	
Leaders	52-week total return	%	Laggards	52-week total return	%
Communications	45.0		Pacific/Asia ex-Japan	-39.8	
Financial	44.9		Diversified Pacific/Asia	-32.9	
Large-cap Growth	35.4		Precious Metals	-30.2	
Europe	33.4		Japan	-22.8	
Small-cap Blend	32.8		Diversified Emerging Mkts.	-15.7	

ey flow analysis, and mutual fund returns are as of May 19. For a more detailed explanation, write to us or E-mail figures@businessweek.com. NA=Not available **Vanguard Index 500 Fund

SETTLE THE MICROSOFT CASE

History suggests that Microsoft and the Justice Dept. should make a deal. The century that began with the epic suit by the government against John D. Rockefeller's Standard Oil trust is ending with the Justice Dept.'s equally historic antitrust suit against Bill Gates's Microsoft Corp. In between, there have been mammoth cases against IBM and AT&T. The Standard Oil suit lasted about a decade. IBM took 13 years. They cost taxpayers and shareholders fortunes. In the end, the markets still determined the fate of each industry, not the regulators.

Yet antitrust suits do play a beneficial economic role. They are brutal, if somewhat clumsy, reminders to all players in the economic game that the template of capitalism must be competition, however strong may be the forces for monopoly. They are public statements that open markets are essential for innovation. And they reinforce core Jeffersonian and Jacksonian values that enshrine small-business people as American heroes. If dozens of high-tech companies are to be believed, Microsoft needed reminding on all three counts.

The goal now should be to avoid years of expensive litigation. The truth is, Microsoft and Justice are not that far apart on some basic principles (page 38). Take the list of complaints in Justice's injunction filing. First, Justice demands that Microsoft end exclusionary contracts that prohibit Internet service providers and online services from promoting the rival Netscape browser. Microsoft, however, essentially acceded to this government demand months ago.

The government also demands that Microsoft in effect pay for its alleged past sins against Netscape by giving its rival a special break. Microsoft can either add Netscape's browser to its new Windows 98 software or offer consumers two versions of the operating system—one with the Microsoft browser and one without it at a lower price. Either way, Justice is tacitly agreeing to Microsoft's key demand that it be allowed to integrate features into its operating system. Microsoft already bundles America Online, another popular portal

to the Net, with Windows 95. Standing on principle and making analogies about Coca-Cola Co. and PepsiCo Inc. is worth a decade in court. Our advice to Microsoft: buy Netscape, or offer two versions of the operating system. Then, the customer can choose.

Finally, the government demands that Microsoft give total control of the first screen that pops up when a computer is turned on. With icons and a new channel bar on Win98, Microsoft can lure people to its own sites or the sites of its partners. This, says the government, allows Microsoft to dominate the Net and all electronic commerce. Regulators want computer makers to be able to put a "shell" screen on top of Win98 and configure their own first page. Microsoft objects, but is willing to include some icons of rivals. Standing on principle over shells isn't worth years in court. Our advice to the regulators: compromise with Microsoft and be reasonable.

Big antitrust cases are decided, in large part, by public opinion. Washington and the state attorneys general can't have public support to bust up Microsoft. It is not perceived the same way as tobacco companies are today or as Standard Oil was nearly a century ago. On the contrary, a BUSINESS WEEK/Harris poll recently showed that only 32% wanted the government to do anything to Microsoft. It is also clear that most consumers are happy with the integrated features of Microsoft's operating system. Joel I. Klein, the antitrust lawyer at Justice, was therefore smart not to try and stop the development of the Win98 software. That move might have caused a public uproar. He was smart to allow Microsoft to bundle its browser and ask only that other choices be included.

Now it's Microsoft's turn to be smart. Bombast and righteousness don't play well with the public. The company is not guilt-free, and the government is not the devil. Doing a deal would save enormous amounts of money and time. If Microsoft agrees, the government and state AGs must promise not to hobble its every move, allowing fast-changing technology and market forces to work. A good deal all around.

RESCUING ASIA FROM THE BRINK

Asia is in economic and political turmoil, but don't simply blame Indonesian riots, Indian nuclear explosions, or Korean labor strikes. Behind the unprecedented collapse of once prosperous economies lie policy mistakes by Japan, the International Monetary Fund, and the U.S. Treasury.

Japan should be pulling Asia out of its recession. Instead, by failing to boost its domestic economy, Tokyo is making things much worse. It is allowing the yen to sink to 150 and perhaps even 200 to the dollar to promote exports—a move that will lead to a new round of competitive devaluations. Already, China is struggling not to devalue the yuan.

The IMF and the U.S. Treasury team led by Deputy Secre-

tary Lawrence H. Summers must take major responsibility for the tragedy. Asia's overvalued currencies were caused by too much cheap capital flowing into the private sector. Their government sectors were in good shape, with budget surpluses. But the IMF applied prescriptions that came out of Latin America, where government deficits triggered currency crises. The result in Asia? Confidence was not restored, capital fled, millions were fired, and prices for food soared.

Asia is on the brink of depression. Its deadly deflationary spiral must be reversed. Economies must be reliquified, and companies must be recapitalized. People in the U.S., Japan, and Europe who think they can dodge this bullet are dreaming.



Giving kids a chance to live out their dreams is just one of the commitments Little League Baseball® makes.

CNA not only provides Little League Baseball with general liability insurance, but also covers the players, coaches and volunteers with accident medical expense insurance. CNA can help you keep your commitments by offering a broad array of insurance products and services for your business, home, auto and life. What CNA brings to the game is over a century of experience and more than \$60 billion in assets. <http://www.cna.com>

CNA

For All the Commitments You Make®



sharp outfit

BusinessWeek

June 8, 1998

A PUBLICATION OF THE MCGRAW-HILL COMPANIES

\$3.95

How JACK WELCH RUNS GE

A Close-up Look at
America's #1 Manager

SPECIAL REPORT

By JOHN A. BYRNE



BURLINGAME

MAY 29 1998

LIBRARY

BURLINGAME PUBLIC LIBRARY
480 PRINCE RD
BURLINGAME CA 94010-4010

0139 94010
#BXBBGDD**5-DIGIT
#0602 1056111600#JAN99 102 0139



onv

The combining of Digital and Compaq will put our customers on the express track to the future. When our companies get together, our customers will get a single supplier with undisputed leadership across many of today's most important information technologies. Fact is, no one will be able to match us in Windows NT.* And no one has anything

ard

that rivals the sheer power of Digital UNIX,* OpenVMS* or Alpha. Which means, for everything from Internet commerce to aerospace, telecommunications to finance, our customers will be able

to come to us for the widest, most popular choices of Intel-based computing solutions, and the most tested and trusted 64-bit solutions. (Call it one-stop shopping that can help make you unstoppable.) Find us at www.digital.com/onward. And get ready to win in a networked world.

digital™

COMPAQ

Of all the hats you wear as a small business owner, the accounting fedora itches the most

There's software for people who didn't start a business to be an accountant. Small Business Financial Manager is part of the Microsoft Office family and works with leading accounting software to help you get the most out of the accounting information you already have. Freeing you up to focus on the big picture.

Like, how would a 10% price increase affect your cash flow? What if you took out a loan to pay off that other loan? What if you hired a new employee? You can find the answers in the What-If Wizard.

We'll send you our small business information packet when you call 1-800-60SOURCE. It's full of relevant, pertinent advice to help you succeed.

We make software to meet your small business needs. And it all starts with Windows . Everything fits seamlessly together to form a digital nervous system so your business is ready, willing and able to deal with what's around the corner.

More sales. More money. Less math.



Where do you want to go today? **Microsoft**

www.microsoft.com/smallbiz/

COVER STORY

JACK IN THE PULPIT

What every manager dreams, GE's Jack Welch achieves: The gospel preached at the top is practiced at the bottom page 90

BusinessWeek

JUNE 8, 1998



TRADE CRUSADE

Clinton calls for more open markets and greener, pro-labor policies page 34



Cover Story

90 HOW JACK WELCH RUNS GE

No one, but no one, has achieved what General Electric's Jack Welch has. Not Sam Walton, not Warren Buffett, not even Bill Gates—none has created more shareholder value than Welch. In 17 eventful years, he turned an old-line American industrial giant into a keenly competitive world-beater. Here's an in-depth look at the personal chemistry and executive style of this manager's manager

110 'I HAD A PAL IN MY MOM'

Lessons learned early—and a close bond with his mother—shaped Jack Welch's life and career

News: Analysis & Commentary

34 CLINTON'S TRADE CRUSADE

His bold new agenda could boost global prosperity—and leave a lasting legacy for the President

36 BACKDRAFT FROM NAFTA

A *maquiladora* strike in Tijuana is reverberating on Capitol Hill at a bad time for Clinton

37 COMMENTARY: CULTURAL PARANOIA

Nationalists in Canada are going a step too far in their attacks on U.S. magazines and radio

38 DIZZY FROM DOWNSIZING

Workforce cuts come home to roost at Nynex—now Bell Atlantic North

39 NEW DISCOUNTER IN THE SKY

Can MetroJet coexist with Southwest?

40 COMMENTARY: SAVINGS PLANS

IRAs, Keoghs, 401(k)s: Enough already

42 FORD BORROWS A BETTER IDEA

It plans to roll out new-car superstores nationwide

42 HOT WAR OVER HERBAL REMEDIES

Demand for dietary supplements has set off a brawl among drugmakers

44 ABSCESS AT PREMIER LASER

Charges fly that a dental-tech startup hyped its numbers

46 IN BUSINESS THIS WEEK

International Business

52 SOUTH KOREA

The banking sector is in desperate need of reform, and critics doubt that President Kim has the stomach for it

52 SOUTH KOREA

A talk with President Kim Dae-jung about Korea's economic crisis

58 INDONESIA

Habibie's first hurdle: Finding a way to feed the country

60 BRITAIN

The Irish pact is a tough act to follow as he faces the troubles at home

62 INTERNATIONAL OUTLOOK

Is Hong Kong headed for a shock over democracy?

Economic Analysis

24 ECONOMIC VIEWPOINT

Barro: Reinvent Social Security

26 ECONOMIC TRENDS

Productivity, labor force growth, women's 401(k)s

31 BUSINESS OUTLOOK

U.S.: How to manage a budget cut; Chile: A slowdown may spur loan

Government

51 WASHINGTON OUTLOOK

Social Security heads for Wall Street



ONCE A BEAR...
Why Larry Tisch
won't stop selling
short page 112

**SCREEN
GEMS**
Business is
boffo at the
new inner-
city cinemas

page 75



**REFORM
IN KOREA**
Can Kim
make it
happen?

page 52



WORLD CUP
On the eve of the
games, a battle to
control soccer page 77

Information Technology

TECHNOLOGY & YOU

Microsoft's software for handhelds is
so-so

THE DEVIL IS IN THE E-MAILS

Digital electronic messages can come
to haunt companies—as “smoking
guns” in court

Marketing

CRACKS IN THE 'HOOD

New theater chains are building in the
inner city—and they're finding
strangers galore

Sports Business

SOCCER SHOWDOWN

On the World Cup about to begin in
France, two powerful forces are
struggling to control professional soccer

Special Issues

WHEN AIR BAGS AREN'T ENOUGH

Chicago gets together with critics to
address safety issues raised by the
presence of light trucks

86 ANATOMY OF A CAR CRASH

How emergency rooms and the Big
Three are learning from serious auto
accidents

Finance

112 TISCH: THE ULTIMATE BEAR

Loews's chief insists that his investment
strategy—which looks disastrous now—
will be vindicated

114 BRE-X ALL OVER AGAIN?

Despite YBM Magnex' shadowy past,
Canadian securities officials let it trade
publicly—and investors got burned

115 COMMENTARY: MEGAMERGERS

Bank-insurance-mortgage monoliths
such as the proposed Citigroup may end
up knowing too much about you

116 A MOUNTAIN OF EUROJUNK

As the euro's day nears, investors
across Europe are scurrying for higher
yields—and finding them in junk bonds

118 INSIDE WALL STREET

129 INVESTMENT FIGURES OF THE WEEK

Personal Business

120 INVESTING: Cheap commodities

TAXES: Stock donations

FITNESS: Space Age bikes

Features

6 UP FRONT

12 EDITOR'S MEMO

13 READERS REPORT

14 CORRECTIONS & CLARIFICATIONS

19 BOOKS

Brin: *The Transparent Society*
Diffie and Landau: *Privacy on the Line*
Gelman, McCandlish, and Members of
the Electronic Frontier Foundation:
Protecting Yourself Online

68 DEVELOPMENTS TO WATCH

Shedding light on damaged DNA, online
security, “virtual retinal display,” cystic
fibrosis treatment

127 BUSINESS WEEK INDEX

128 INDEX TO COMPANIES

130 EDITORIALS

BusinessWeek **ONLINE**

businessweek.com
America Online: Keyword: BW

Up Front

EDITED BY ROBERT McNATT

MICROSOFT BUSTERS

IT WAS JUST A JOKE, MS. RENO, A JOKE

THE JUSTICE DEPT. HAS unearthed what it considers potentially damning evidence in its antitrust case against software giant Microsoft. A document, so far

sealed by the court, features Jeffrey Raikes, Microsoft's group vice-president for sales and marketing, declaring the company's "Windows Paradise" under siege and

adding that "Netscape pollution must be eradicated."

The folks at Microsoft say all it proves is that Justice lawyers are terminally unhinged. Raikes claims it's a script for a video he made two years ago that parodies

hip-hop star Coolio's *Gangsta's Paradise*, the rap made popular in the movie *Dangerous Minds*. Turns out Raikes makes a gag video just about every year, and this was only one among many. "Pumping up the sales force isn't only essential to competing," says Raikes, "it's fun."



COOLIO, RAIKES: Smile when you say "eradicate"

Well, an ultraserious Justice official examined the document for BUSINESS WEEK and did not once mention the word "fun." Said he: "It does not appear on its face to be a joke." So there.

The antitrust trial is scheduled to start in September, at which point a federal judge may decide whether Raikes is a rapacious competitor or merely a lousy rapper. *Steve Hamm*

TELECOM WARS

SPRINT LAUNCHES OPERATION LOCAL

THE NATION'S NO.3 long-distance phone company, Sprint, is expanding its local telephone service in several key domestic markets. Insiders say that on June 2, Sprint is likely to announce New York City, Los Angeles, and Chicago, among others, as areas where it hopes to grab business from the Baby Bells.



How? The betting is that Sprint will use its existing fiber network to lure business customers and snare residential business through alliances with smaller telcos such as ICG or Intermedia.

The most interesting possibility, say sources, is that Sprint will attack local markets with wireless technology, an approach used in emerging markets overseas. With competition for local calls still dominated by the Baby Bells, the long-distance carriers are ripe for new approaches.

On May 26, Sprint said that it had acquired 53% of Sprint PCS, a wireless joint venture with Tele-Communications, Comcast, and Cox Communications that it hopes to take public soon. Sprint could use this infrastructure as a less expensive alternative to building costly wire-line networks.

"Outside of the U.S., the local exchange play is a wireless play," says James Andrew, an analyst at Renaissance Worldwide. It may soon be that way inside the U.S., too. *Roger O. Crockett*

TALK SHOW "I said, 'Here, I'll throw in five bucks, why not?'"

—Frank Capaci, winner of the \$195 million Powerball lottery

TURNAROUNDS

AT&T LOSES A FEW GOOD MEN

ADD ANOTHER NAME TO THE list of AT&T executives leaving the long-distance giant. In a move not yet announced, John Legere, the No.2 at AT&T Solutions, is moving to Dell Computer to head its Asian operations. AT&T Solutions helps customers manage computer and telecom systems. Legere is the fourth AT&T exec to leave in May.

So are AT&T managers losing faith in CEO C. Michael Armstrong's efforts to rejuvenate the company? Although he has helped AT&T's stock price, he still has to cut costs, protect its long-distance business, or enter local phone markets, say insiders.

But behind the flight of top brass is another factor: Experienced telecom managers are extremely hot commodities. With capital pouring into the industry, telecom compa-



ARMSTRONG: Work cut out

nies are fighting for talent, says a headhunter who has raided AT&T.

Says Rolla Huff, who just left AT&T to become chief financial officer of telecom operator Frontier: "AT&T is a terrific company. I just think there's tremendous opportunity here." AT&T acknowledges that losing promising executives hurts—but the company also says that it plans to cut 25% of its 130 officers over the next two years. *Peter Elstrom*

INVESTORS

HAS BUFFETT LOST HIS SILVER TOUCH

THERE WERE A LOT OF THINGS spooking the silver market in late May as it plunged about 40% from recent highs to just over \$5 an ounce. But traders and analysts don't believe Warren Buffett has decided to unload his 130 million-ounce stash. In fact, given prices when he began buying the metal last July, the betting is that the Oracle of Omaha is about even despite the price plunge.

When Buffett disclosed his holdings in February, the market pushed up the price to more than \$7 per ounce. Buffett said he was taking the long view: Over the past

nine years, worldwide demand for silver has exceeded supply, and he expects the situation to continue for several more years.

Short-term, however, the picture is grimmer. On top of the ongoing slide of Asian currencies, the markets have been shaken by the threat of sanctions against India—the world's second-largest consumer of silver—after its nuclear tests.

Prices could fall below \$5 an ounce, say some analysts. Already, says Ted Kempf, a senior research analyst with C&

Group, traders intent on locking in profits are selling as the price drops. So this is a downswing that could be nerve-wracking—except for investors taking the long view. *Andrew Osterland*



BUFFETT: Silent sage

No money-back guarantee

No proof of delivery

No tracking



No overnight commitment

No on-call pick-up

This is priority?

If getting your package there on time is a priority, make sure you use FedEx.

FedEx

The Way The World Works.

Up Front

FOODSTUFF

LET THEM EAT HAWAIIAN COBIA!

IT'S A MATTER OF BREAD AND circuses. As business booms in the trading rooms of Wall Street, life is good in executive lunchrooms.

One of the hottest menu items is bread. A few years ago, who cared? But now, Masters of the Universe care a lot, says Nick Valenti, CEO of Restaurant Associates, which provides food service to Morgan Stanley Dean Witter; Donaldson, Lufkin & Jenrette; Bear Stearns; and Nomura Securities, among others. Ciabatta, ficelles, and foccacias are in—also seafood, such as Copper River salmon, Prince Edward Island mussels, and Hawaiian cobia.

Meanwhile, it's a circus—or at least a performance—in the corporate cafeteria. One big trend is having the chef serve special dishes in the middle of the employee cafeteria, whipping up, say, a fine



YUM: Only the best for execs

risotto for the workers at Donaldson, Lufkin & Jenrette. But they may pass that up for vegetable wraps, another trendy item.

Corporate business is about one-third of RA's \$250 million annual revenue, says Valenti: "As the businesses have grown, we have grown." Amid the culinary class consciousness, he adds, there is one common denominator: chocolate. Everybody, it seems, loves this popular dessert choice. □

Even with refrigerated holding areas, that damages the goods. Says customs broker John Cain: "It's just another one of those \$75,000 toilet seats."

There are five such machines at border crossings, with three more on order. Yet produce trucks entering the U.S. continue to be inspected manually. Why? "My understanding is that they can't X-ray produce because it gives a false reading," confusing veggies and marijuana, says Frank Schuster, president of Val Verde Vegetable in McAllen, Tex. Manufacturer American Science & Engineering of Cambridge, Mass., says discussing the machine's flaws "would jeopardize the effectiveness of the equipment." Drug seizures at the border are up, say the feds. But importers say the feds would be wiser to invest in drug-sniffing dogs.

Dennis Blank



TAXES AT WORK

THIS DRUG HUNTER BRUISES THE FRUIT

FOOD IMPORTERS ARE steamed that the war on drugs is damaging produce trucked across the Mexican border. They say new X-ray machines can't find drugs but cost them plenty in bruised fruit. The room-size, drive-through, \$3.2 million machines don't work right, they charge, forcing trucks to unload and reload produce for inspection.

DRAWN & QUARTERED



PRODUCT PEEK

SPAYING WITHOUT CUTTING

CAN'T FACE PUTTING YOUR faithful four-legged friend under the knife for spaying? Dog lovers may soon have a choice. A researcher at the University of Georgia has developed injections—no surgery involved—to ensure a puppyless pooch in just three visits to the vet.

A company licensed by the university plans to market its injectable contraceptive, now named Spay-Safe, once Food & Drug Administration trials are over in 1999. The prediction is that Spay-Safe will grow into a \$100 million business within



five years. The drug is a natural extract from pig ovaries, says an outside expert. Georgia B-school professor Charles Hofer says Spay-Safe worked well in initial tests.

The drawback some see is not how the dogs react, but how their masters will think vets would come something traumatic and possibly safer [than surgery] to their patients," says Leslie Sinclair of the Humane Society of the U.S. But she won't bother making the three trips to

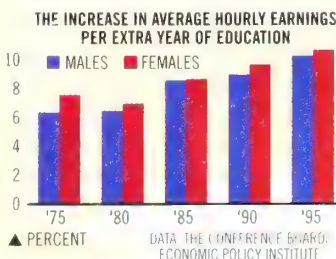
KINDER, GENTLER
Three shots will

vet. It's "the human nature factor," she says. And the shot isn't available yet to that.

Joan C.

THE BIG PICTURE

MOTHER WAS RIGHT The premium for extra education has consistently risen for the past two decades, largely because of the demand for information technology workers. Those skills are still in short supply, so the gap should grow.





Willard Inter-Continental, Washington, D.C.

While everyone was debating the idea of
the Global Village, we were building it.

One World. One Hotel.
Uniquely Inter-Continental.



INTER-CONTINENTAL

HOTELS AND RESORTS

www.interconti.com

AMERICAN
BOGOTA
BUENOS AIRES
CAIT
CANCUN
CARACAS
CHICAGO
CIUDAD GUAYANA
COZUMEL
DALLAS
GUADALAJARA
HAWAII
LOS ANGELES
LOS CABOS
MANAGUA
MARACAIBO
MEDELLIN
MEXICO CITY
MIAMI
MONTREAL
NEW ORLEANS
NEW YORK
PANAMA CITY
PUERTO VALLARTA
RIO DE JANEIRO
RIONI GRO
SAN FRANCISCO
SAN JOSE
SAN PEDRO SULA
SAN SALVADOR
SANTO DOMINGO
SAO PAULO
TORONTO
VALENCIA
WASHINGTON, D.C.

EUROPE
AKMOLA
AMSTERDAM
ATHENS
BARCELONA
BERGAMO
BERLIN
BRATISLAVA
BRUSSELS
BUCHAREST
BUDAPEST
CANNES
CRACOW
DUBLIN
FRANKFURT
GENOVA
THE HAGUE
HAMBURG
HANNOVER
HELSINKI
ISTANBUL
KILMER
LIEZJIG
LIUBLJANA
LONDON
LUXEMBOURG
MADRID
MALTA
MONTREAL
MUNICH
MUNICH
NICOSIA
PARIS
PRAGUE
ROMA
SALT LAKE
TAMPERE
TOKYO
WARSAW
ZAGREB
ZURICH

ASIA PACIFIC
BALI
BANGKOK
BROOME
CHENGDU
COLOMBO
JAKARTA
KUALA LUMPUR
MANILA
NEW DELHI
PHNOM PENH
SEOUL
SHEN/HEN
SINGAPORE
SYDNEY
TAIPEI
TOKYO
YOKOHAMA

MIDDLE EAST
ABHA
ABU DHABI
AL AIN
AL JUBAIL
AMMAN
BAHRAIN
BIRZIT
CAIRO
DUBAI
HURGHADA
JEDDAH
MADINAH
MAKKAH
MUSCAT
RIYAD
SHARM EL SHEIKH
TAIF

AFRICA
ABIDJAN
CAPE TOWN
DURBAN
FRANCEVILLE
JOHANNESBURG
KINSHASA
PORT NATHAN
LIBREVILLE
LUSAKA
NAIROBI
VICTORIA FALLS
FORUM HOTEL



The world's best-selling servers.



ENTERPRISE SERVER

PROLIANT 7000 SERVER

STARTING AT **\$16,080***



ENTERPRISE SERVER

PROLIANT 6500 SERVER

STARTING AT **\$13,807***



ENTERPRISE SERVER

PROLIANT 5500 SERVER

STARTING AT **\$7,386***

Thousands of businesses trust their mission-critical data to SAP. Who does SAP trust?

Over half of SAP's™ R/3™ installations running Windows NT™ run on Compaq servers. That's twice the number of installations of any other Windows NT-based hardware provider. And no surprise to us. Because SAP develops and tests their software on Compaq platforms—a partnership designed to assure you maximum performance, reliability and easy implementation. Industry-standard platforms bundled with SAP solutions are one way we make sure that the best ideas always reach you. To learn more, visit our website or call for a reseller near you.

1-800-319-7778 www.compaq.com/solutions

EDITOR-IN-CHIEF: Stephen B. Shepard
MANAGING EDITOR: Mark Morrison
CHIEF ECONOMIST: William Wolman
ASSISTANT MANAGING EDITORS:
 Sarah Bartlett, Robert J. Dowling, G. David Wallace
ART DIRECTOR: Malcolm Frouman

CHIEF OF CORRESPONDENTS: James E. Ellis

SENIOR EDITORS: Bob Arnold (New Media), Frank J. Comes, William Gagliardi, Geoff Lewis, Paul Raeburn, Kathy Rebello, Jane A. Sasseen, Cro Scotti, Lee Walczak (Washington), Elizabeth Weiner, Chris Welles, Seymour Zucker

EDITORIAL PAGE EDITOR: Bruce Nussbaum

SENIOR WRITERS: Robert Barker, Anthony Bianco, John A. Byrne, Jeffrey M. Laderman, Gene G. Marcial, Karen Pennar, Otis Port, Gary Weiss
ECONOMICS: James C. Cooper (S. Economist/Bus. Outlook ed.), Kathleen Madigan, Michael J. Mandel (Economics ed.), Peter Coy, Gene Koretz (Trends ed.), Christopher Farrell (Contributing ed.)
INTERNATIONAL: Christopher Power (Asian Edition ed.); Rose Brady (European Edition ed.); Duane E. Anderson, Pete Engardio, Joan Warner (Sr. news eds.); John Templeman (Political affairs); Sheri Prasso (Asia); John Pearson (Latin America); Kerry Capell (Finance)

ASSOCIATE EDITORS: Catherine Ernst, Aaron Bernstein, Dan Beckue, Amy Dunkin, Rick Green, Neil Gross, Keith H. Hammonds, Kelley Holland, Larry Light, Ira Sager, Leah Nathans Spiro, Fred Strasser, Pat Wechsler

PICTURE EDITOR: Lawrence Lippmann

SENIOR ART DIRECTOR: Francesca Messina

DEPARTMENT EDITORS: Books: Hardy Green, Corporations: Nanette Byrnes, L. Jeanne Dugan, Enterprise: Robin D. Schatz, Legal Affairs: Mike France, Management: Jennifer Reingold, Marketing: Ellen Neuberger, Markets & Investments: Suzanne Woolley, Money & Banking: Debra Sparks, People: Eric Schine, Personal Business: Edward C. Baig, Personal Finance: Todd Gutner, Scoreboards: Frederick F. Jespersen, Software: Amy Cortese, Technology Strategies: Marcia Stepanek, Telecommunications: Peter Elstrom, Up Front: Robert McNatt

STAFF EDITORS: Lori Bongiorno, Heather Green, Joan Oleck, Edith Updike
COPY EDITORS: Prudence Crowther, Harry Maurer (Deputy chiefs), Marc Miller, Jim Taibi (Asst. chiefs), Tim Belknap, Aleta Davies, Jack Robbins, Doug Royalty (Sr.); Giles Blunt, Joseph Mandel, Anne Newman, David Pengilly, Malka Peral, Lourdes Valeriano
RESEARCHERS: Maria Chapin, Gail Fowler, Aida Rosario, Oluwabunmi Shabi

PRODUCTION COPY EDITORS: Lawrence Dard (Chief), Hallberg Hallmundsson, Celine Keating, B. Kite, Robert S. Norman, Robert J. Rosenberg, Victoria Rubin

ART: Jay Petrow, Steven Taylor (Deputy dirs.); Don Besom, Alice Cheung, Andree Kahlmorgen, Christine Silver (Asst.); Peter Marshutz (Asst.)
Graphics & New Media: Arthur Eves (Creative dir.), Joan Danaher (Graphics dir.), Rob Doyle (Assoc.), Jame Beauchamp, Alan Bastedon, Lisa Knouse Braiman, Alberto Mena, Ray Vella (Illustrators); Eric Hoffmann
Imaging: Annette Farrell (Mgr.), Alan Bomzer (Asst.), Leo Nieter, Joseph

PHOTO EDITORS: Scott Mlyn (Deputy); Ronnie Weil (Sr.); Michael Hirsch, Anne Murray, Andrew Popper, (Assoc.), Bettina Baudoin, Kathleen Moore (Asst.), M. Margarita Eiroa, Lawrence Crowe, Sarah Greenberg Morse (Res.-archer)

EDITORIAL OPERATIONS: Yvonne F. Rodriguez (Director), Wally Baudin, Nicholas M. White (Mgrs.) Karen Butcher, Francisco Cardoza, Thomas R. Dowd, Nancy Gores, Stephen R. Lebrun, Jody A. LoGrasso, Jose L. Martin, Peter K. Nieceberg, Jane M. Perkinson, Laura Reissman, Karim Turk, Ilse V. Walton, Barbara Wilhelm, Donald C. Pearson, Guillermo Ortiz

EDITORIAL TECHNOLOGY: Thomas L. Morgan (Director); Richard Balestrino, David Bandler, Marie Bryant, Beth Higgins, James Kutz, Neil MacLeod, John Navarro, Juan Rodriguez, Marta Skrelja, Craig Sturges, George White

BUSINESS WEEK ONLINE: Michael Mercurio (Managing ed.); A. Peter Clem, John A. Dierdorff, John Johnson, Dennis K. Berman, Nadav Eshar, Paul Eng, Patrick Lambert, Diane Young

CORRESPONDENTS: Atlanta: David Greising (Mgr.), Nicole Harris, Boston: William C. Symonds (Mgr.), Paul C. Judge, Geoffrey Smith, Chicago: Richard A. Melcher (Mgr.), Roger O. Crockett, David Leonard, Andrew Osterland, DeAnn Weimer, Cleveland: Peter Gatuska (Mgr.) Connecticut: Susan Jackson, Dallas: Wendy Zellner (Mgr.), Stephanie Anderson Forest, Detroit: Kathleen Kerwin (Mgr.), Keith Naughton, Bill Vlasic, Houston: Gary McWilliams (Mgr.) Los Angeles: Ronald Grover (Mgr.), Larry Armstrong (Sr. correspondent), Steven V. Brull, Kathleen Morris, Miami: Gail DeGeorge (Mgr.) Philadelphia: Amy Barrett (Mgr.) Pittsburgh: Stephen Baker (Mgr.) San Francisco: Peter Burrows, Steve Hamm, Linda Himelstein, Robert D. Hof, Andy Reinhardt, Washington: Owen Ullmann (Sr. news ed.), Douglas Harbrecht (News ed.), John Carey, Paula Dwyer, Howard Gleckman (Sr. correspondent), Amy Borrus, Stan Crock, Richard S. Dunham, Sean Foust, Susan B. Garland, Paul Magnusson, Mike McNamee, Stephen H. Wildstrom (Tech & You), Catherine Yang, Frankfurt: Thane Peterson (Mgr.), Mark L. Clifford, Bruce Einhorn, Hong Kong: Joyce Barnathan (Mgr.), Mark L. Clifford, Bruce Einhorn, London: Stanley Reed (Mgr.), Julia Flynn, Mexico City: Gen Smith (Mgr.) Moscow: Patricia Kranz (Mgr.) Paris: Gail Edmondson (Mgr.) Rome: John Rossy (Mgr.) São Paulo: Ian Katz (Mgr.) Singapore: Michael Shan (Mgr.) Tokyo: Brian Brenner (Mgr.), Robert Neff (Contributing ed.), Irene M. Kunir, Emily Thornton Toronto: Joseph Weber (Mgr.)

EDITORIAL SERVICES: Broadcasting: Ray Hoffman, Business Manager: Barbara Boynton, Information Services: Jamie B. Russell (Director), Karen Stevens (Mgr.), Judi Crowe, Debra Deskin, Fred Katzenberg, Robert Roeker, Susann Rutledge, Barbara Silverbush, Office Manager: Roselyn Kopit, Communications: Robert Pondiscio (Director), Christine Summerson, Readers Report: Yvette Hernandez, Reprint Permission: Janet Gonzalez

PUBLISHER: Joseph G. Plesner
SR. VP, ASSOCIATE PUBLISHER: William P. Kupper Jr.
SR. VP, OPERATIONS: Gary B. Hopkins
SR. VP, MARKETING & BRAND DEVELOPMENT: Harold K. Somersdyk
VP, CONSUMER MARKETING/CIRCULATION: Thomas Masterson
VP, STRATEGIC PLANNING & PRODUCT DEVELOPMENT: Kimberly Grace
VP, SALES: Constance E. Bennett (International), Joanne K. Bradford (Western Region), Dan Dunn (Midwestern Region), Robert H. Kelly (Northeast Region), Louis R. Mohn (Southeast Region)
VP, STRATEGIC PROGRAMS: James H. McGraw IV
VP, SALES DEVELOPMENT: Mark A. Flinn
VP, MANAGING DIRECTOR/ASIA: Stephen B. Moss
VP, MANAGING DIRECTOR/EUROPE: Fritz Krusebecker
VP, TECHNOLOGY: Thomas J. Reed
VP, CONTROLLER: Bernard J. Drakewicz
DIRECTOR, ADVERTISING BUSINESS: Linda F. Canvalho
DIRECTOR, PRODUCTION & SALES SERVICES: Mario J. Talluto

AND THE WINNER IS...

Over the past two years or so, BUSINESS WEEK has run a series of seminal stories about what we called the New Economy. We described how information technology and the globalization of business

Com Inc.'s dramatic takeover bid for MCI Communications Corp.

BUSINESS WEEK has garnered a number of other editorial prizes this year. Among them: the Overseas Press Club (OPC) Award for best

business reporting from abroad (in magazines) for our coverage of the Asian crisis, an OPC citation for environmental reporting, a National Magazine Award



THE NEW ECONOMY: Fast growth without igniting inflation

were spurring investment and productivity. We argued that these trends were creating a new business cycle that would permit faster economic growth without renewed inflation. This line of reasoning drew blood. We debated it endlessly among ourselves, and we were criticized by some traditional economists, who kept warning that an overheated economy would generate inflation long before now.

We are thus especially gratified to learn that we have received the 1998 Gerald Loeb Award for distinguished business journalism in the magazine category for our coverage of the New Economy. The Loeb prize, administered by the John E. Anderson Graduate School of Management of the University of California at Los Angeles, is the most important award in business journalism—and we have now won it for two years in a row. Kudos to Mike Mandel and Dean Foust for their brilliant work. The Loeb judges also honored us as a finalist for our coverage of World-

nomination for BUSINESS WEEK Online, three Deadline Club first-place prizes, and several awards for our coverage of abuses on Wall Street.

These awards demonstrate again



ASIAN CRISIS: Before and after the fall

why BUSINESS WEEK is by far the world's No. 1 business magazine—first in circulation, first in total readership, first in revenue, and first in editorial honors. We are determined to continue bringing you, our loyal readers, the best possible publication

Stephen B. Shepard

Editor-in-Chief

Business Week

A Division of The McGraw-Hill Companies



JUNE 8, 1998 (ISSN 0007-7135)** 3581

Published weekly except for two combined issues in August by The McGraw-Hill Companies, Inc. Founder: James H. McGraw (1860-1948) Executive, Editorial, Circulation, and Advertising Offices: The McGraw-Hill Companies, Executive Office, 1221 Avenue of the Americas, New York, N.Y. 10020-1348 (212) 512-2000 Telex: McGraw 1100000 (212) 512-2000 Fax: McGraw 1100000 (212) 512-2000 Internet: www.mcgraw-hill.com Single copies, \$3.95; back issues, \$5. Write for rates in other countries. Subscriber Service: 1-800-455-1200 TDD: 1-800-524-1579

Postmaster: Send address changes to BUSINESS WEEK, P.O. Box 518, Hightstown, N.J. 08520. Periodicals postage paid at New York, N.Y., and at additional mailing offices. Postage paid at Montreal, P.Q. Canada Post International Publication Mail Product Sales Agreement No. 246484

Registered for GST as The McGraw-Hill Companies, Inc. GST #R123456789. Copyright 1998 by The McGraw-Hill Companies, Inc. All rights reserved. This publication is registered in U.S. Patent Office. European Circulation Center: Hill House, Maidenhead, Berks, England. Telephone: 01628-23431; Telex: 9540. Offices of The McGraw-Hill Companies, Inc.: Joseph L. Dionne, Jr., President and Chief Executive Officer; Al Vasta, Senior Vice President and General Counsel; Robert J. Anderson, Executive Vice President and Chief Financial Officer; Frank D. St. John, Executive Vice President, International Operations; Michael K. Heintz, Executive Vice President, Information Services Group.

PHOTOCOPY PERMISSION: Where necessary, permission to photocopy must be obtained from the copyright owner for those registered with the Copyright Clearance Center (CCC), 222 Rosewood Drive, Danvers, MA 01923, to photocopy items for internal or personal use, or the internal or personal use of specific clients, is granted by McGraw-Hill for users registered with the Copyright Clearance Center (CCC) Transactional Reporting Service, provided that the fee of \$1.00 per copy is paid directly to CCC. For those organizations that have been granted a photocopy licence by CCC, a separate system of payment has been arranged. The fee code for users of the Transactional Reporting Service is 0007-7135/98 \$1.00. This consent does not extend to multiple copying for promotional or commercial purposes. ISI Tear Sheet Service, 3501 Market Street, Philadelphia, PA 19104, is authorized to supply single copies of separate articles for private use only. For all other use, permission should be sought from McGraw-Hill. Copyright © 1998 by The McGraw-Hill Companies, Inc. Printed in the U.S.A.

ING THE SUN AGAIN ON JAPAN

Japan's real crisis" (Cover Story, May) explains that the problems are caused by hidden debt and that the prescription from the U.S. of lowering taxes will make the debt problem worse. On the balance sheet, however, Japan compares favorably with the U.S. Although Japan has high debt, it also has the highest rate of personal savings in the world. The U.S., with relatively small savings, has virtually no private savings.

Japan can find a way to use its savings to liquidate its public debt, then it could again enjoy the high growth rates of the four prior decades.

Bruce Dailey
San Jose, Calif.

Foreigners with a superficial understanding of the country routinely place blame on either Japan's politicians or bureaucrats. For what it's worth, Japan is a democracy. Its policies are the result of elected politicians. Three cheers to Robert Neff who pointed out that Japanese people are also to blame.

Kenji Yuhaku
Edgewater, N.J.

You suggest that Japan's closed market and its unwillingness to change are leading to ruin. Yet Japanese products continue to drive U.S. competitors to bankruptcy. Fuji Photo Film Co.'s predatory practices have forced Eastman Kodak Co. to take drastic measures in the face of a flood of low-priced photographic products that have unlimited access to our market. The Japanese auto manufacturers now have a large share of the U.S. retail car market, and they are threatening to take even more.

It seems that Japan Inc. is doing well and continues to export its problems, encouraged by the weak yen. From my perspective, the Japanese are winning the trade war, and America's selfish demand for low prices today and "to hell with tomorrow" is terrifying.

Steve Wagg
Rochester Hills, Mich.

REPORTS OF CANCER'S IMMINENT DEATH WERE AN EXAGGERATION

"Of Mice, Men, and Cancer Cures" (Columns: Analysis & Commentary, May) points to the gap between hype and reality in modern drug development. For a therapeutic protein that is in the animal-disease model, there is less than a 10% chance of it getting to market. It also takes at least six to ten years to complete the human testing required for regulatory filing before it can be approved. And the candidate

could drop out during any of the three phases of clinical trials for reasons ranging from lack of efficacy to high toxicity.

The hype of this miracle cure has generated speculation in the biotech company that owns its development rights and has created false hope for patients desperate for a cure. The failure will not only affect the stock price but will also undermine confidence in the biotech industry. While the media are eager to publish stories that attract attention, it also is their responsibility to

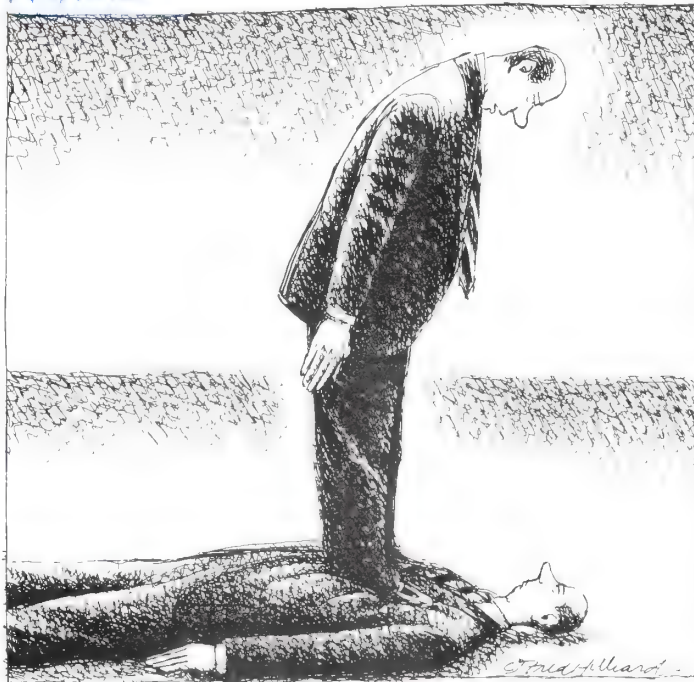
caution the reader. A clarification of the risks and realistic expectations might aid the commercialization process of future biotech products by building consumer and investor confidence.

Peter Tsao
Tokyo

TRW IS DOING JUST FINE, THANKS

In "Air bags are deflating TRW" (The Corporation, May 18), you stated that

WillTales



"Who told you life was fair, Bob? If you need fairness, you can either run to your mommy or to that client-coddling Williams network."

that **Williams** network



Readers Report

CORRECTIONS & CLARIFICATIONS

In the table accompanying "Online Brokers: Do you get what you pay for?" (Personal Business, May 25), Salomon Smith Barney was incorrectly included among the underwriters that provide initial public offerings to customers of Charles Schwab & Co.

In the Corporate Scoreboard (May 18), the correct net income for NationsBank Corp. is \$497.0 million, a change of -42%. This results in a first-quarter 1998 profit margin of 7.1%, return on equity of 11.4%, a price-earnings ratio of 21, and 12 months' earnings per share of \$3.73.

our share of the air-bag market peaked in 1996. Not so. TRW's share grew in 1997. Also, you reported that one of our competitors "picked off" some of our market share. Not so. TRW took market share from it. Air bags represent about 17% of TRW's revenues, not 30%. And the slight decline in air-bag margins reduced net earnings by \$9 million, not \$19 million.

More important is the omission of any reference to the record revenues and earnings and our long-term goal to double the size of the company in seven years. We're on track to do that, and we don't worry excessively about quarter-to-quarter comparisons.

Most recently, we acquired BDM International Inc. for close to \$1 billion, as you mentioned. But that's all you said about one of the most significant acquisitions in the company's history. Overall, our company is doing just fine.

Joseph T. Gorman
Chief Executive
TRW Inc.
Cleveland

Editors' note: A TRW official told BUSINESS WEEK that air-bag problems reduced net earnings by \$18.6 million in the first quarter. The article should have stated that air bags and related restraints, not air bags alone, represent about 30% of total revenues.

THE FUTURE SHOCK OF LOW-PAYING JOBS

Thank you for "Gen-X gets short-changed" (Economic Trends, May 11). The Schrammel study also mentioned the employment shift from goods-producing to service-producing industries (which typically pay less) and the jobs lost in occupations vulnerable to automation. With these trends projected to continue to 2005—when the Bureau of

Labor Statistics estimates that 70% of all new jobs created will be in the lower-paying trade and services sector—where is the concern about falling compensation for a majority of workers?

David Heslington
Chatham, N.J.

WE CAN'T BE SURE ADOPTION STORIES HAVE HAPPY ENDINGS

"From Russia with red tape," (Personal Business, May 18) says that, for most adoptions from Russia and Eastern European countries, "a happy outcome is more typical" than the usual negative media reports.

In reality, there is no consistent research on the outcome of such adoptions. Children are dispersed throughout the U.S. and other countries, and there's no mechanism for follow-up. The survey by the Cradle of Hope Adoption Center lacks objectivity because the agency is following up on its own adoptions.

Louise K. Eckman
Pittsburgh

HAVE AIRFARES REALLY SOARED?

In "The power to raise prices" (News: Analysis & Commentary, May 4), you contend that, according to the Bureau of Labor Statistics, "ticket prices soared at a 36.9% annual rate in the first quarter." The problem with this calculation is that the index does not do a good job of tracking the volatile airfare market. While it may be reasonable over time, it undergoes significant month-to-month statistical variation.

Comparing the first quarter of 1998 with the same quarter of 1997 smooths out some of the statistical noise and eliminates seasonal effects. This comparison shows a more realistic annual increase of 4%. Even this calculation, however, overstates the true increase. Domestic fares in the first quarter of 1998, as reported by the Air Transport Assn., were only 1.5% higher than in the same period a year earlier.

Gregory T. Taylor
Vice-President for
Revenue Management
United Airlines Inc.
Chicago

QUARK STANDS BY ITS MAC PLATFORM

Quark is continuing to expand the platforms that it supports—most recently, to include Digital Equipment

Corp.'s Alpha NT-based workstations ("Microsoft gives the Mac a hand," Technology & You, Apr. 20). This expansion, however, should by no means imply that Quark is lessening its involvement with the Macintosh environment. In fact, our two most recent offerings, Quark Publishing System and Quark Digital Media System, operate on both the Mac and Windows platforms.

Although the Windows platform offers us new opportunities, the majority of QuarkXPress users in the desktop publishing industry remain committed to the Mac. Quark will remain a customer-driven company. As long as our customers are committed to the Mac, we'll support their platform of choice.

Chuck Blum
Chief Operating Officer
Quark Inc.
Denver

FINDING US ONLINE

BusinessWeek **ONLINE**

The full text of Business Week, the Business Week Daily Briefing, and seven years of BW archives are available on the World Wide Web at:

www.businessweek.com

and on America Online at Keyword: BW.

To sign up for BW on AOL, call (800) 641-4848 and mention Business Week.

maven

Shopping for computer equipment? Visit Maven, an online Computer Buying Guide, for continuously updated ratings and price information. Go to Keyword: Maven on America Online, or to the World Wide Web at:

www.maven.businessweek.com

HOW TO REACH BUSINESS WEEK

LETTERS FOR READERS REPORT

All letters must include an address and daytime or evening phone numbers. We reserve the right to edit letters for clarity and space and to use them in all electronic and print editions.

Mail: Business Week, 1221 Avenue of the Americas
39th floor, New York, NY 10020

Fax: (212) 512-6458

Internet: bwreader@mgh.com

America Online: readersbw

SUBSCRIBER SERVICES

For individual subscriptions, corporate subscription renewals, changes or problems, and single copies. Phone: (800) 635-1200 or (609) 426-7500

Fax: (609) 426-7623

Internet: bwhelp@mcgraw-hill.com

REPRINTS AND COPYRIGHT PERMISSIONS

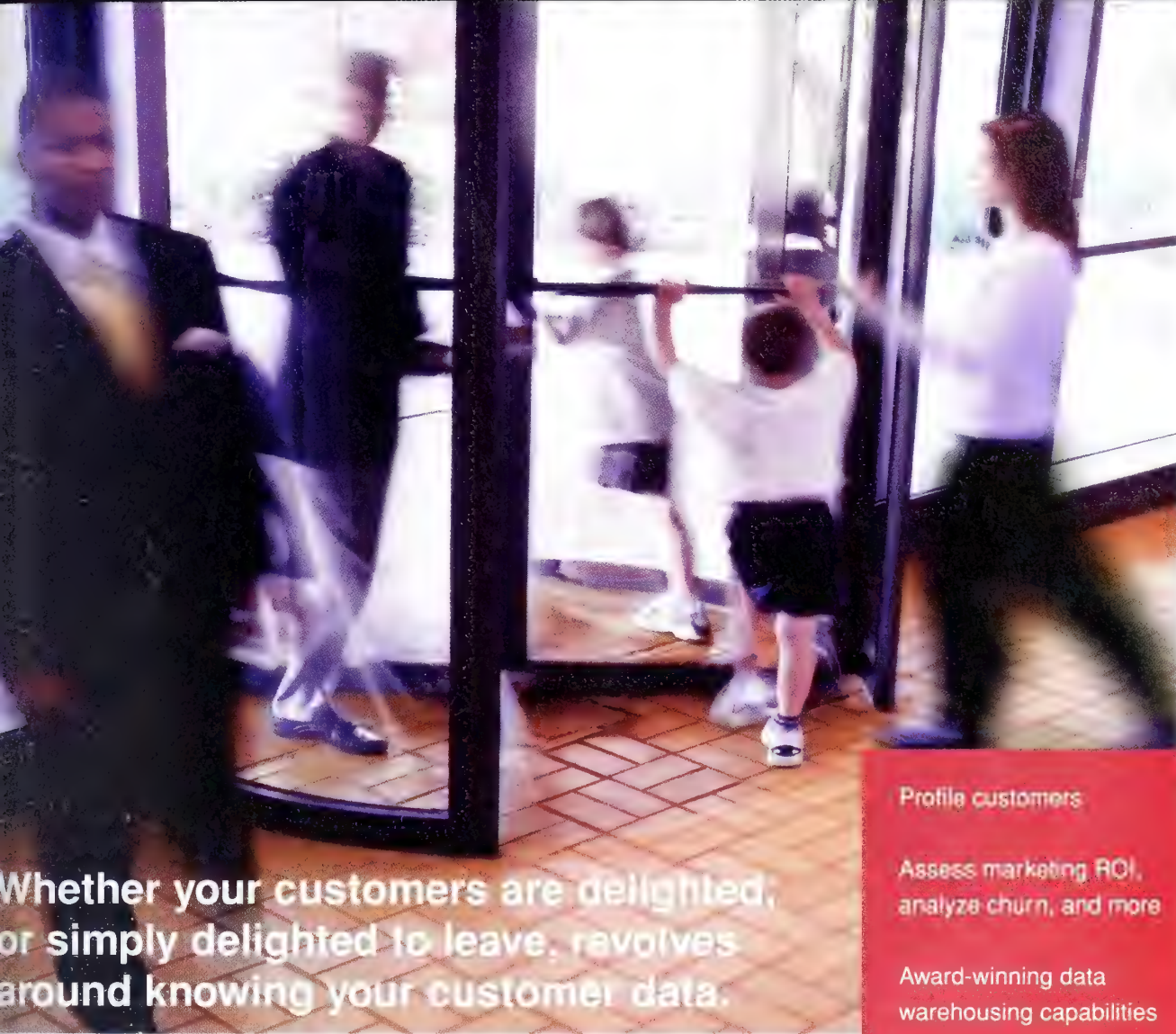
For custom reprints (minimum order of 500) contact (609) 426-5494

Before quoting or reusing editorial material

Phone: (212) 512-4801

Fax: (212) 512-4938

Customer Relationship Management



Whether your customers are delighted,
or simply delighted to leave, revolves
around knowing your customer data.

That's why you need the SAS® Solution

Who are your most profitable customers...and why? How many customers are you losing... and why? What value do your customers see in your products and services...or those of your competitors? Instead of just storing your customer data, explore all the possibilities with the SAS Solution for Customer Relationship Management.

It's the only software that integrates the full scope of managing customer relationships. Collect information at all customer contact points...then analyze data to better understand customer needs. Refine business strategies around your most profitable customers. Determine lifetime customer value. All by just pointing and clicking.

To find out more, and request a free *Guide to Customer Relationship Management with the SAS® Solution*, visit us at www.sas.com/crm

Profile customers

Assess marketing ROI,
analyze churn, and more

Award-winning data
warehousing capabilities

Fully Web enabled

Year 2000 compliant



SAS Institute Inc.

The Business of Better Decision Making

www.sas.com/crm E-mail: bw@sas.com Phone 919.677.8200

SAS is a registered trademark of SAS Institute Inc. Copyright © 1998 by SAS Institute Inc.



Whether it's high-volume black and white or full-color solutions, Canon has the right tools for the job.

When faced with an overwhelming workload, it's good to have office equipment that's up to the task. Like Canon's high-volume systems. Digital or analog, our high-volume machines are designed so you can handle your big jobs.

WITHOUT THE RIGHT EQUIPMENT
A BIG JOB CAN SEEM EVEN BIGGER.

with very little effort. And all have finishing capabilities that can improve your productivity from the start. Not to mention the image quality and reliability that have become the standard in the industry. So choose the right equipment — high-volume black and white or full-color solutions from Canon. Suddenly, those big jobs aren't so big anymore.



ANYWARE™

Canon

BY STEPHEN H. WILDSTROM

PALM-TO-PALM COMBAT

Microsoft enters the market for handhelds, but its software could still use some work

Simplicity, of all things, is the hardest to be copied.

—Sir Richard Steele

Microsoft is the master of bringing others' ideas to a mass market, sometimes improving them in the process. Simplicity, however, has never been highly esteemed in Redmond, Wash. The latest palmtop computers are a case in point.

Inspired by the success of 3Com's Palm line of handheld computers, Microsoft has provided the software and a basic design that lets various companies produce their own Palm clones. After a legal wrangle with 3Com over ownership of the word "palm," Microsoft has dubbed the rivals "Palm-size PCs." Superficially, the devices bear a strong resemblance to Palm products. I tried Casio's Cassiopeia E-10; others will be made by Everex Systems, Philips Electronics, and Palmax Technology.

The Cassiopeia, due in stores in June, is a bit bigger than 3Com's new Palm III in each dimension, and outweighs it by an ounce at 7.2 oz. It has a 240x320-pixel monochrome display, compared with the Palm's 160x160. But both devices provide the same

core functions of organizing contacts, a calendar, and to-do lists. Information can be swapped with a desktop computer by setting the Cassiopeia in a cradle.

CREATIVE DIFFERENCES. Behind these similar designs lie different philosophies. Palm has always focused on doing a few things well. Although independent software developers have added capabilities ranging from

complete with icons, menus, toolbars, and, yes, a Start menu. Even with three times as many pixels, I found the overall effect cluttered and confusing. The icons are tiny and, without color, difficult to differentiate. The menus work much better than Palm's, although they sometimes offer too many choices.

The Windows CE software offers an Internet E-mail program and limited Web browser. The mail program can synchronize with the inbox on a desktop computer, but only if you use Microsoft Outlook or Exchange for your mail. It also can handle mail remotely through a dial-up connection, but I couldn't test this feature because the \$100 Cassiopeia modem is not yet available.

siopeia's NEC VR4111 processor is far more powerful than Palm's Motorola DragonBall, the E-10 often responds slowly to commands. And I ran through a pair of AAA batteries in a week, vs. at least a month in my Palm III.

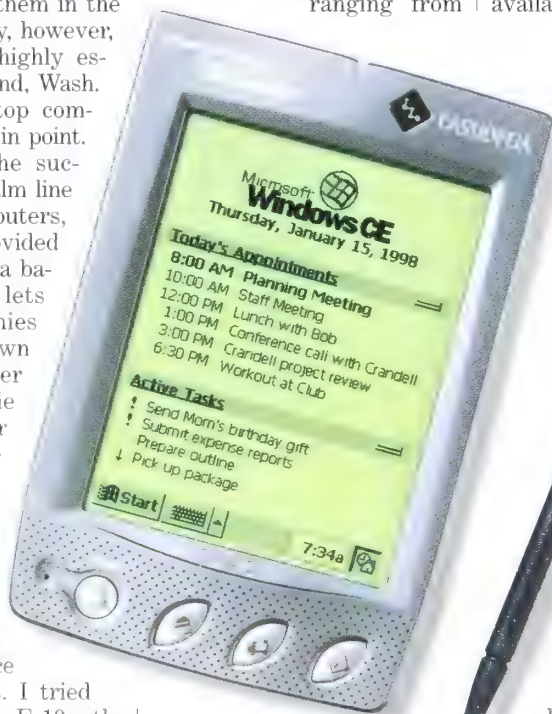
The Cassiopeia has considerable strengths. As on the Palm, you enter information either by tapping a stylus on a minuscule on-screen keyboard or, far more easily, by writing a kind of shorthand in one area of the screen. You have a further choice between a natural character set, which amounts to standard printed letters, and a "simplified uppercase alphabet," which is a dead ringer for Palm's Graffiti. Both work well. In a neat feature, the Jot Character Recognition

software guesses at the word you're trying to write, and you can accept a suggestion with a tap of the stylus. A built-in sound system enables you to record a few minutes of voice messages.

Cassiopeia fares less well with ergonomics. Microsoft has made much of a design that allows two buttons and a rocker switch

for scrolling, to be mounted on the side for one-handed operation. But you need really big hands to use the device comfortably. And if you are right-handed, you'll have to work the buttons and rocker with your left thumb.

The Palm-size PC is in the Microsoft tradition of its very-good first versions. But the company also has a history of improving products quickly. Microsoft and its partners already have beta designs in the works—and so does Palm. This is one competition where consumers are the sure winners.



BUSY Cassiopeia offers E-mail and a browser. But the screen, replete with icons, is hard to read

When hooked to a desktop computer, the Web browser can download content from specific sites or "channels" designed for the small display. Tests worked fine using the only available channel, MSNBC. The real power of this feature will be in downloading specialized content, such as daily price lists or inventory reports, from an internal corporate Web site.

The complexity of the Microsoft programs is tough on resources. Although Cas-

TRANSPARENT SOCIETY

David Brin
Simon-Wesley • 378pp • \$25

EVERYONE IS LIVING IN A FISHBOWL

Ever feel as if you're being watched? You are. Video cameras track you in stores. Electronic eavesdroppers are also cropping up in parks and other public places. Credit cards generate a trail of what you buy, and credit-rating agencies know if payments are late. Web sites record your browsing preferences. Insurance companies store your medical data on computers, which can be hacked. And don't touch that phone. Tapping, legal and otherwise, is on the rise.

Many people find this trend alarming, but they should. In its benign form, privacy abuse simply means a flood of junk mail. But there are also sinister ruses, such as "identity theft," in which tech-savvy criminals armed with nothing but a credit card and Social Security number can impersonate you, drain your credit cards, bank loans, and even your life savings in your name.

Powerful digital encryption can bolster privacy—but that, too, is controversial. Law-enforcement agencies have lashed out to suppress cryptography for the past few years, fearing a loss of ability to monitor criminals.

Three new books, taking radically different approaches, highlight how our quest for privacy has been compromised by the onrush of advanced technology. And with varying degrees of success, all three try to tell us what to do about it. *The Transparent Society*, by physicist and science-fiction writer David Brin, argues that in a more connected world, privacy might be less than we think. *Privacy on the Line*, by computer scientists Whitfield Diffie and Susan Landau, asserts exactly the opposite: that privacy is critical to our quality of life. And *Protecting Yourself Online*, by Internet activists Robert B. Gilman, Stanton McCandlish, and assorted

PRIVACY ON THE LINE

By Whitfield Diffie and Susan Landau
MIT Press • 342pp • \$25

members of the Electronic Frontier Foundation, takes a nuts-and-bolts approach, helping general readers understand privacy-related threats and nuisances so they can take measures against them.

Of the three books, Brin's is the most optimistic and most entertaining. In an exuberant romp across the digital landscape, Brin convinces himself—and almost convinced me—that openness is the antidote to threats against privacy.

The setup for this argument is a parable of two possible high-tech futures. In one, grim citizens of a fascist-sounding state are monitored by Police Central. In the alternative future, there's just as much monitoring. But it goes in both directions—by the police and of the police—without oppression or rancor. Both future societies are crime-free. Which one would you choose?

Brin's thesis, amplified in long, unhurried chapters, is that "transparency" and accountability are our best defenses against abuses. Cryptography, beloved by spooks, cyberpunks, and civil libertarians alike, is a useful tool, in Brin's eyes. But in an encryption arms race, the rich and powerful—meaning governments and big business—will always outgun ordinary citizens. In any case, Brin claims, snooping technology will advance more quickly than the tools to thwart it. You can digitally scramble a message. But how will you conceal your keystrokes from minuscule, insect-like, remote sensing devices that fly through your window and fix themselves to the ceiling?

PROTECTING YOURSELF ONLINE

By Robert B. Gilman, Stanton McCandlish and Members of the Electronic Frontier Foundation
HarperEdge • 199pp • \$15

New laws are no solution, Brin argues. Regulations will only create new layers of bureaucracy—and ultimately, such laws are unenforceable. Simplified to an extreme, his argument says that the authorities should be permitted to snoop, if that will help them fight criminal elements. But in return, he writes: "We should make government come begging deferentially, and extract something in return each time. New kinds of supervision. New guarantees of openness. Snap inspections by teams of randomly chosen citizens."

Brin's gift is his ability, honed by fiction-writing, to think through whole scenarios. He uses the Rodney King beating in Los Angeles to show how "snooping" fosters accountability—provided the cameras face both directions. Then, he extrapolates to a whole society based on such reciprocity.

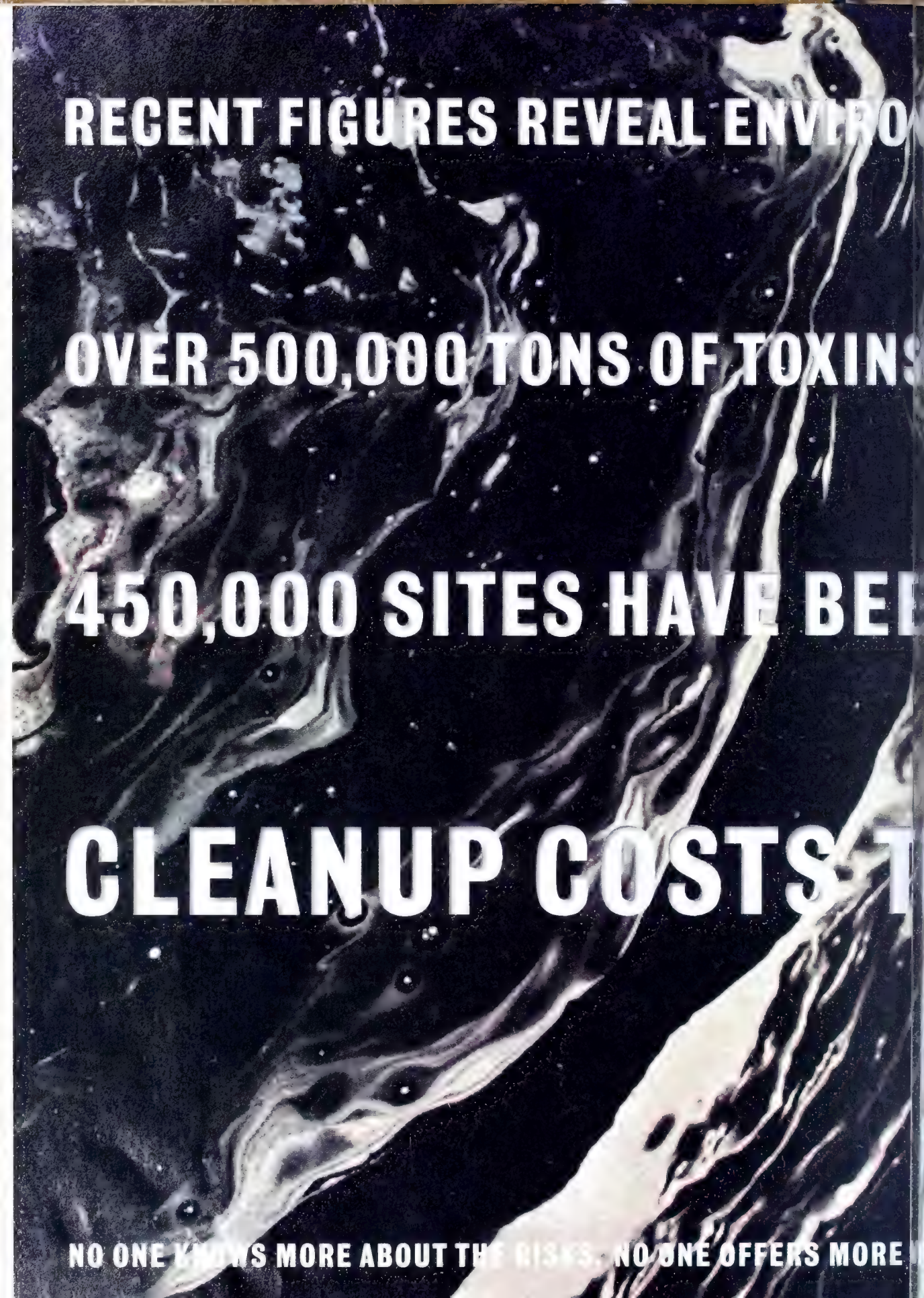
Sure, we lose some privacy. "Anyone will be able to find out how much you paid for your nose job, or what salad dressing you buy," he concedes. "And your reaction will be, 'Who cares?' It will be like having people know what color sweater you are wearing."

Sadly, there are many jarring digressions, and Brin's prose is peppered with New Age-sounding homilies. What's more, while it is nice to know whose shoulders a writer stands on, Brin overquotes cybermavens such as Esther Dyson and Howard Rheingold, not to mention the Great Minds of times past. In chapter five, there are cameo appearances by Freud, philosopher Karl Popper, Plato, Karl Marx, Ayn Rand, and Hegel—all on the same page.

Diffie and Landau take a completely different tack in *Privacy on the Line*. They argue that privacy has been the rule throughout most of history. Prior to the 20th century, all face-to-face conversations were secure, as long as others were out of earshot. Modern communications changed all that, along with our core relationships. Now, our most inti-



WHAT DO WE DO WHEN ELECTRONIC SNOOPING ADVANCES FASTER THAN TOOLS TO THwart IT?



RECENT FIGURES REVEAL ENVIRON

OVER 500,000 TONS OF TOXINS

450,000 SITES HAVE BEEN

CLEANUP COSTS T

NO ONE KNOWS MORE ABOUT THE RISKS. NO ONE OFFERS MORE



AL LAWSUITS HAVE REACHED 7,213.

BEEN DUMPED IN U.S. WATERS.

ECLARED CONTAMINATED.

LED \$23.5 BILLION.

As the market leader in environmental coverage, we can help
protect you against asset devaluation and contingent liabilities,
whatever your size. Call your broker or visit www.aig.com

TECT AGAINST THEM

ENVIRONMENTAL PROTECTION

AIG

AMERICAN INTERNATIONAL COMPANIES, 70 PINE ST., DEPT. A, NEW YORK, NY 10270

Books

mate friends may be on the other side of the world—and anyone could be listening in on our conversations. “If people are to enjoy the same effortless privacy that they enjoyed in the past, the means to protect that privacy must be built into their communications systems,” they write.

The authors’ solution is digital encryption. That’s no surprise. In 1974, while at Stanford University, Diffie—now at Sun Microsystems Inc.—and two colleagues invented “public key” encryption, which is now widespread. In a nutshell, a person seeking privacy makes use of two separate mathematical formulas, or keys—one of them public and one private. The public key, available to anybody, is used only for scrambling messages, and the private one only for decryption. To receive private messages from friends, you have them encrypt their files with the public key that you supply them. Then you unscramble the message using your private key. Hackers can gain access to the public

key, but that won’t help them decrypt messages.

Mysteriously, Diffie and co-writer Susan Landau, a computer scientist at the University of Massachusetts at Amherst, come up short when addressing cryptography head-on. Early chapters engulf the reader in technical discussions that are less engrossing than what follows. My guess is that those who hang on through all the talk of “multiple Vigenère systems” and “nonlinear shift registers” may already know what these are.

Chapters on public policy and national security also drag. On the other hand, the authors give clear and authoritative treatments of wiretapping and digital telephony, the flap over the government’s famed “Clipper” chip, and the legal framework for privacy protection, which is nowhere directly guaranteed in the Constitution. This book could use a few vivid, imaginative leaps of the sort David Brin offers in spades. But in the end, the authors prove their case that “the preservation of privacy is crit-

ical to a democratic political process.”

Protecting Yourself Online is a breezy how-to book giving user-friendly explanations of where the Internet came from, how patents and trademarks work, how surfers should behave on the Net, and so forth. It has tips on spotting forged mail, coping with junk E-mail called “spam,” and dealing with programs called “cookies” that catalog your preferences on a Web site. The discussion never goes too far down, and there are lots of Web links for further research.

These three books make a nice collection. Diffie and Landau provide a good reference work, and *Protecting Yourself Online* is well worth the hour it will take to read. But Brin will transport you to the most exotic intellectual locales. I especially enjoyed his depiction of “flame” and other short-fused critics on the Net as “human T-cells” carrying out a critical role of error-correction in cyberspace. As long as there is free speech, he argues, we can rely on the Net’s immune system to seek out evil and correct it. It’s a sweet notion. If only the world really worked that way.

BY NEIL GROSS

Gross writes about technology—digital, biological, and otherwise.



Unlimited

Introducing...

REX

PC COMPANION

Starfish Software Software designed, developed and produced by Starfish Software

COMPUSA the good guys! THE SHARPER IMAGE Office DEPOT

Access

Never be without your PC organizer information.

Now, a credit-card-size way to carry your organizer information. REX gives you access to up to 3,000 entries with the press of just a few keys. Simply enter data on your PC, download through a PC-Card slot or with the REX Serial Docking Station — then go! REX comes with its own easy-to-use PC organizer software. This program also imports data from most popular organizers including: Sidekick 98, Lotus Organizer 97, Microsoft Schedule+ 7.0 and Outlook 97, and Symantec ACT! 3.0.* REX gives you unlimited access to the information you need most — Starting at \$149.

*Some import limitations may apply.

For more information, call toll-free 1-888-REX-60 or visit our website at: www.franklin.com/rex





With Magnifica Class, Alitalia raises the standard of flying to a fine art.

Alitalia, the world's premier airline to Italy, presents Magnifica Class. A masterpiece of style and service that reflects the very best of Italy. Outstanding cuisine and superb wines served with the warmth and friendliness that could only come from people who have turned living into an art form. Every detail in Magnifica is first class, from our luxurious, leather-trimmed seats to our award-winning, five-star meals

and international wine selection. Best of all, your Magnifica Class flight to Italy, including chauffeur-driven transfers in Rome and Milan, costs the same as a business class ticket. Alitalia offers superior service to 135 cities in 63 countries worldwide, so whatever your travel plans, call 800-223-5730 or visit our website at www.magnifica.com for more information.

MAGNIFICA CLASS. THE BEST OF ITALY.



Alitalia participates in the frequent flier programs of Continental and US Airways. Newark flights operate in partnership with Continental Airlines and feature BusinessFirst™ service

Alitalia

BY ROBERT J. BARRO

DON'T TINKER WITH SOCIAL SECURITY, REINVENT IT



PRIVATIZE:
The present setup causes distortions of work decisions and savings plans. We need to shift as rapidly as possible to a private system

If one takes a fresh perspective, then the U.S. Social Security retirement program is a really strange idea. We presently raise tax revenues equal to 6% to 7% of the gross domestic product just to make transfers from young people to old people. The program produces nothing, and most of the transfers are not from the rich to the poor (which is one reason the program is so popular). Many of the transfers are between members of the same extended family; for example, my mother receives about \$7,600 per year, and my brother and I together pay in around \$16,000 per year. It's not a great deal, even for my mother. She would probably get more if it came directly from her sons.

The Social Security program requires a vast amount of public finance—nearly equal in magnitude to that of the individual income tax—and thereby causes distortions of work decisions and savings plans. Of course, the U.S. is not alone in these problems.

World Bank data (from *Averting the Old Age Crisis*, Oxford University Press, 1994) can be used to compare the U.S. public pension program to those of other nations. U.S. outlays of 6.5% of gross domestic product are well above the median for 92 countries of 1.5%, but below the median of 9.8% for 24 Organization for Economic Cooperation & Development countries. The U.S. ratio of public pension spending to GDP is very close to the value predicted by its old-age population and its levels of per capita GDP and schooling. Thus, we can take a bit of comfort in knowing that U.S. political decisions on Social Security are similar to the world's decisions.

DEFAULTS? Some European countries that have much more generous public pensions than would be predicted are Italy, Austria, Greece, Poland, and France. These countries, even more than the U.S., are headed for real disasters, including either a default on promises or payroll tax rates above 30% to pay the overly generous public pensions.

Many economists think that pay-as-you-go social security (in which pension benefits to the old are paid by current taxes on the young) lowers national savings. This argument is, however, ambiguous in theory and isn't well supported empirically. In any case, this problem likely cannot be fixed by a shift to a funded public system (in which pension benefits are paid from the earnings and principal of accumulated reserves). Such a pro-

gram implies massive accumulations of reserves with a consequent extreme political temptation to raise current benefits by spending the reserves. That is, unless a country has the discipline of Singapore, it is likely that a "left-winger" like Franklin D. Roosevelt or Richard M. Nixon will raise benefits for elderly people who did not make considerable prior contributions.

The best reason to have a Social Security retirement system is that it can provide an income floor for old people. In this respect, Social Security is similar to other welfare programs. One special feature of Social Security is that the private resources that individuals have available during retirement depend largely on past saving choices, so people may save too little if they anticipate that the government will bail them out. Hence, there is some justification for the government to mandate, as the Chilean government does in its privatized system, sufficient saving during working years so that no people will have a privately provided old-age income that exceeds the designated income floor. The size of the mandate should be set so that the typical individual would not require public bailout during retirement.

LIMITED RISKS. Individual incentives to work, save, and incur risks are least distorted by the mandated saving flows into privately managed accounts. That is, the program should be private and funded as much as possible. There is, however, some basis for limiting the risk that an individual can incur in pension accounts in order to reduce the chance that an individual will end up on the dole.

A change to a private, funded program does not escape the problem of honoring existing commitments on pension payments to the current elderly. These promises ought to be kept, although there are questions about quantifying the degree of commitment to people who are currently below retirement age. This honoring of past promises inevitably requires taxes of some sort on current and future generations. These levies should be viewed as costs created by the past mistake in giving old people retirement benefits that greatly overmatched their payroll taxes. If these costs are basically sunk and ought not to influence decisions about a desirable form of Social Security for the future. In particular, we should start now on a transition to a system that is mainly private and funded.

A history of bringing people together.



Japan's leading telecom provider — NTT — has been connecting people and businesses with cutting-edge services for over 100 years. Today, our *Global Systems Integration Services* provide failsafe solutions for end-to-end corporate connections around the planet. And our *Arcstar Global Communications Services* unite major cities across the U.S., Europe and Asia with high-speed infocommunication highways. As we continue to branch into new areas, one principle is certain to endure: we're here to bring people together, now and for generations to come.

Arcstar

Connecting the world through multimedia

For more information on how NTT can connect you, call 1-800-4-NTT-USA, or visit our website: <http://info.ntt.co.jp>



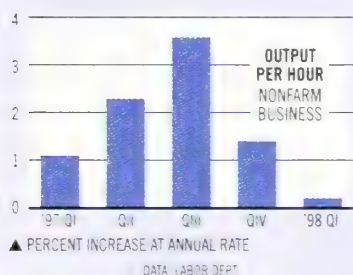
BY GENE KORETZ

BIG TEST AHEAD FOR PRODUCTIVITY

It could be ripe for a fall

With first-quarter gross domestic product bursting out of the starting gate at an estimated 4.2% annual pace—and with price pressures still subdued—the thesis that the U.S. economy has entered a new era of strong, steady, inflation-free growth has never seemed more solid. Indeed, many forecasters believe that the expansion, which is already seven years old and counting,

AN OMINOUS DIP IN PRODUCTIVITY GAINS?



could well surpass the nine-year record chalked up in the 1960s.

One critical element in such a scenario, however—the belief that U.S. productivity growth has moved to higher ground—is about to be tested. “True believers in a productivity revival may feel a lot less confident a year from now,” predicts economist Paul Kasriel of Chicago’s Northern Trust Co.

Kasriel notes that productivity growth plunged from a 3.6% annual pace in the third quarter of last year to just 0.2% in the first quarter of 1998 (chart). Further, this occurred while growth in business output surged from a 3.7% rate to 5.3%. “Waning productivity gains in the face of rising output,” says Kasriel, “suggest that a more protracted slowdown in productivity growth lies ahead.”

Such a development would put a large dent in the new economy paradigm. That’s because America’s vaunted productivity renaissance of 2% growth is just two years old. As economist Stephen Roach of Morgan Stanley Dean Witter & Co. observes: “Productivity growth from 1993 through 1995 was unusually low. In fact, annual productivity gains over the

past five years as a whole have actually averaged a mere 0.8%.”

Roach and other economists worry that productivity will revert back close to the 1% pace recorded in the latter half of the 1980s, setting off an inflationary wage-price spiral. At the very least, says David Hale of Zurich Group, productivity faces a number of formidable hurdles in the year ahead.

One is that business has exhausted the supply of skilled labor and is now drawing on new workers with less immediate productive potential. Another is the likelihood that the economy will slow sharply from its 3.8% pace in recent years, exerting downward cyclical pressure on productivity.

Still a third problem is a shift in the economy’s growth engine from manufacturing, which has enjoyed record productivity gains but is now being hurt by the Asian crisis and a strong dollar, to sectors where productivity has been less vibrant. Finally, heavy business spending on Year 2000 computer software problems promises to eat into outlays for genuine capital investment.

Among those who think productivity may be on a new roll is Federal Reserve Chairman Alan Greenspan, who has cited this possibility as a reason to forgo monetary tightening. If productivity stays robust despite the hurdles ahead, business should be able to offset rising wage costs, and the Fed can stay on the sidelines. But if it flattens, talk of a productivity renaissance will fade, and Fed forbearance will end. Stay tuned.

SCANT PAIN FROM LABOR SHORTAGES

Few states seem to be hurting

One popular idea these days is that the current boom may end not with a bang—an inflationary outbreak followed by sharp Fed restraint—but with a whimper, as growing labor shortages constrain growth. Indeed, there’s talk that a lack of qualified workers is already hurting some states, notably in the Midwest.

Economist Peter D’Antonio of Citibank disagrees. If labor shortages in a state were preventing companies from expanding, he notes, then you would expect states with low unemployment also to have sluggish labor force growth—indicating that the supply of potential workers was running dry. In fact, however, his analysis of jobless rates and labor force growth rates in all

50 states last year turned up no consistent relationship between the two.

In other words, states with low employment were just as likely to have a fast-growing labor force as a slow-growing one, and the same was true of states with midrange and high unemployment. At least so far, D’Antonio concludes, “there’s no consistent evidence to suggest that economic growth is being hobbled in states with low employment because employers can’t find enough workers.”

WOMEN’S 401(k) FINESSE

They’re often savvier than men

The conventional notion that women are less aggressive savers and investors than men is apparently wide of the mark—at least as far as employees of companies with 401(k) savings plans are concerned. In a recent study, Watson Wyatt Worldwide analyzed the records of some 150,000 corporate employees eligible to participate in 401(k) plans. To its surprise, the management consulting firm turned up a gender gap in financial behavior, with women generally ahead of the game.

Except for workers in the youngest age group (under 33) and those earning less than \$15,000, women were more likely to participate in 401(k) plans. Indeed, at the \$75,000 earnings level, female participation rate was 12 percentage points higher (87% vs. 75%).

What’s more, aside from younger, lower-paid workers, women generally sock away more of their pay in 401(k) accounts than their male colleagues (chart). And they tend to hold a higher proportion of their pay in equities, as opposed to less risky fixed-income securities.

Because women generally earn less than men and have shorter job tenures, female workers on average still have lower 401(k) balances than male workers. But at equivalent levels of pay and job tenure, the Watson Wyatt analysis indicates they are likely to put more aside and invest more aggressively.

GUESS WHO SOGS AWAY MORE



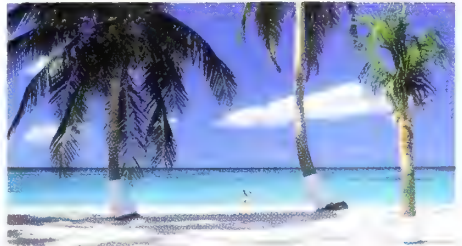


Bill and Linda had cabin fever.

Bad.

Bill said, "I wish spring would get here." Linda said, "I wish we'd get to spring."

Twelve hours later they were in their Ford Taurus,
putting all 200 horses out to graze below swaying palms.



Was it impulse or instinct? Either way, Taurus has
proven itself over 100 billion real-world miles with over 3 million drivers. It's a 24-valve force of nature.

And every bit **as reliable as birds flying south.**



SECOND GENERATION DUAL AIRBAGS**

SAFETY CELL CONSTRUCTION

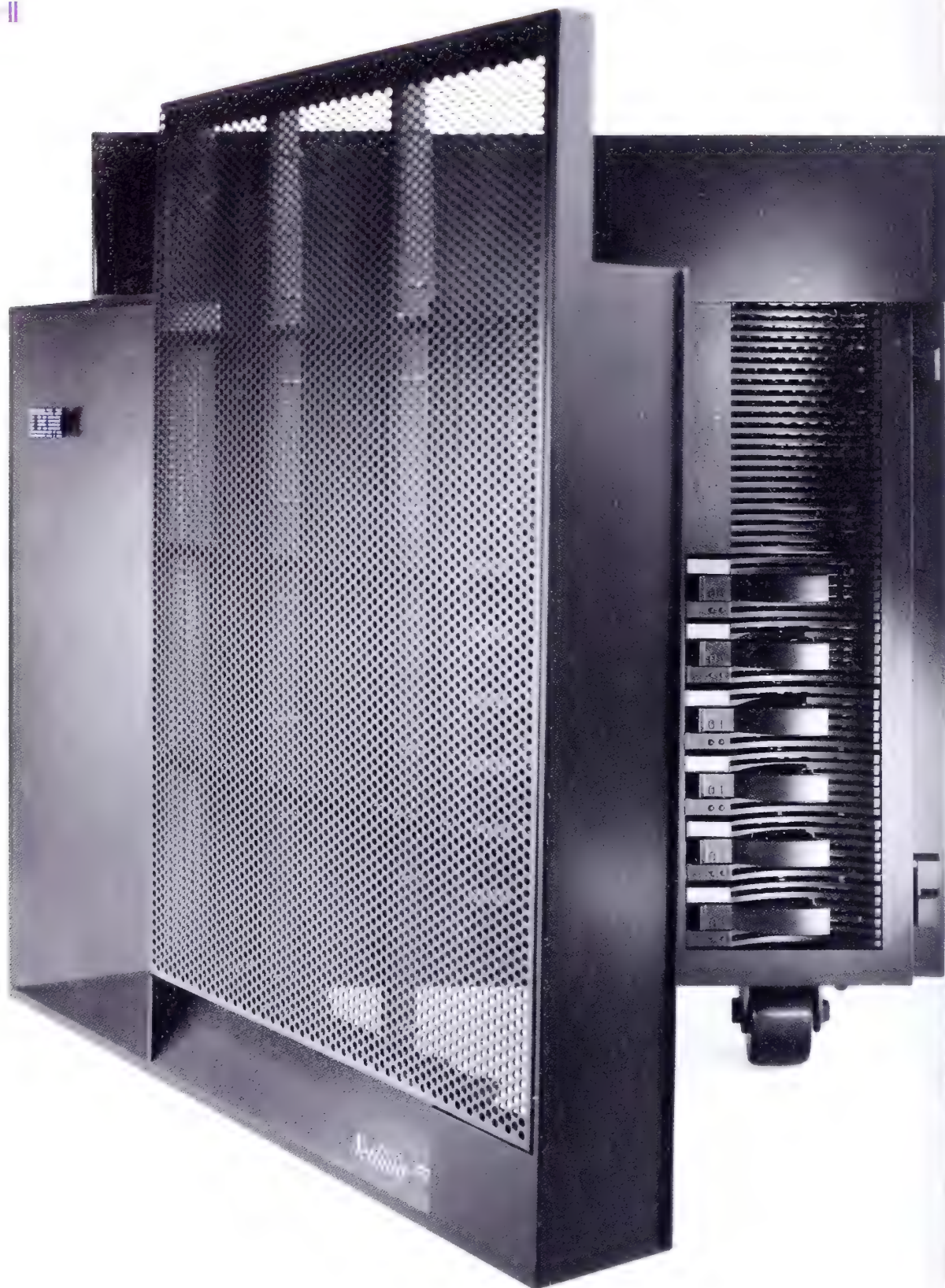
SPEED-SENSITIVE POWER STEERING



Taurus

1-800-258-FORD or
www.ford.com

*Under normal driving conditions with routine fluid and filter changes.
**Always wear your safety belt and secure children in the rear seat.

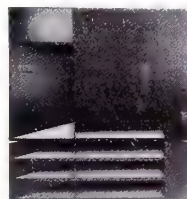


Up to 2-way, 400 MHz¹ Pentium® II processors / Up to 1GB SDRAM ECC memory / Planned availability: June

Up to 4-way, 200 MHz¹ Pentium Pro processors / Up to 4GB ECC interleaved memory / Prices from \$10,929²

For better Windows NT® performance, it takes better design. Details like hot-swap hard drives and power supplies that help your critical apps available. Options like the NetBAY3 pedestal to give you room to custom configure. And innovative features that allow better access to components. These are the details that give the Netfinity 7000 among the highest NT performance in its class.³ See the Netfinity 5500 and 7000 servers at www.ibm.com/pc/us/netfinity or call 1 800 IBM-7255, ext. 4758.

e-business tools



INTRODUCING THE IBM NETFINITY 5500 & 7000 SERVERS

WE'RE DESIGNED
TO RUN
WINDOWS NT.

WE'RE DESIGNED
TO RUN
YOUR BUSINESS.

WE'RE DESIGNED
TO RUN
YOUR BUSINESS.

IBM and the IBM logo are trademarks of International Business Machines Corporation. Windows NT is a registered trademark of Microsoft Corporation. © 1996 IBM Corp. All rights reserved.

The GII Awards honor the people in all areas of society and industry who use the Internet & network technology to produce amazing results,



from making money to making a difference. See how the GII Winners do it by visiting our Web site at www.gii.com or call 888.282.0809.

Need a good
role model?

We've got 11 of the
best in the world.

Thanks to these leaders who made the Third Annual GII Awards possible:

COMPAQ

CITIBANK+

GATEWAY2000

IBM

Lucent Technologies 

MCI 

TANDEM

UNINET

BusinessWeek

Presented by:

ZD ZIFF-DAVIS
A VOTERANA
company

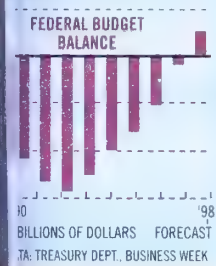
JAMES C. COOPER & KATHLEEN MADIGAN

WASHINGTON'S NEW CHALLENGE: BLACK INK

Big tax cuts may be popular, but they could backfire later on

U.S. ECONOMY It is often said that a rising tide lifts all boats. Well, the tide of this rip-roaring economy has accomplished the economic equivalent of raising the Titanic. It has lifted the federal budget into a significant surplus. Thanks to a record percentage of the population now working and earning incomes, along with a soaring stock market generating huge capital gains and slower growth but still-high corporate profits, the April budget posted a record surplus for the month of \$124.6 billion. Performance exceeded even the optimistic forecasts of most analysts, and it was far above the year-ago surplus of \$93.9 billion, the previous April record.

UNCLE SAM IS HEADING FOR A BIG SURPLUS



Moreover, revenue growth would have to slow appreciably to prevent the 1999 surplus from topping \$100 billion, as well. The key to the budget outlook in coming months into 1999 will be the strength of the economy. So in the second quarter, economic growth shows signs of slowing from the powerful 4% pace of the past six quarters. The question is: Will a cooler second quarter lead into the second half? Based on the latest reading for consumer confidence, home sales, and hiring, the jury is still out on that.

END 1999, the budget outlook is a lot murkier for many reasons: the economy and politics. Much of the swing into surplus has occurred because of the economy's incredible showing in the past year and a half. That means much of the budget improvement has been cyclical and thus subject to the whims of the business cycle. To be sure, some of the movement toward surplus reflects true structural change, particularly on outlays. But greater spending restraint has been built into the budget law. Also, the long unwinding of the de-

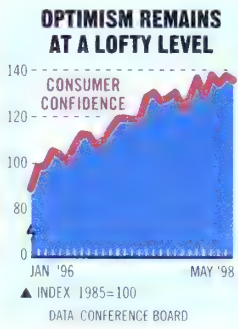
fense industry and the shift toward managed care within the Medicare system are other developments that have occurred independent of economic activity.

But on the revenue side of the ledger, much of the surge in tax revenues simply reflects an unusually strong economy. April revenues rose 14.2% from a year ago, to a record \$261 billion, and receipts as a percentage of GDP have risen to 21.5%, a postwar record. If the economy turns sour in coming years, revenues will tank, cutting the surplus or even eliminating it altogether. In addition, one of the biggest federal outlays, interest on the public debt, has been whittled down because lower inflation expectations have brought down interest rates.

The cyclical component of the surplus makes the budget outlook particularly sensitive to the current political debate over what to do with the windfall. The House Budget Committee on May 20 approved a five-year plan that cuts taxes by \$100 billion now, but which is paid for with \$100 billion in spending cuts over five years. The plan is expected to receive a close vote in the full House.

Cutting taxes in an already strong economy would not go over well on Wall Street, especially in the bond market. That's because the cuts would complicate the Federal Reserve's efforts to keep inflation bottled up, especially since extra cash would generate more demand in an economy where the unemployment rate has already fallen to 4.3%.

Tax cuts would also mean that any downturn in the economy in later years will sharply trim revenue growth. For now, the financial markets are betting that President Clinton's desire to use the surplus to shore up Social Security will prevail, although midterm elections could escalate the debate.



THE GOOD NEWS, at least for now and into next year, is that the economy will keep the budget firmly in the black. Whatever slowdown is shaping up does not appear deep and it may not be lasting. Clearly, manufacturing has pulled back a great deal from its late-1997 pace. Also, a swing in inventory growth, from rapid accumulation in the first quarter to less stockbuilding

Business Outlook

this quarter, appears set to slow overall growth in gross domestic product.

But despite the Asian-led drag on foreign demand, the outlook for U.S. spending, especially by consumers, is still upbeat (chart, page 31). The latest readings on confidence and home buying show little change in households' willingness and ability to spend.

Moreover, third-quarter hiring plans remain highly aggressive. U.S. companies are planning to expand their payrolls next quarter by the most in 20 years, based on the quarterly survey of 15,600 businesses by the employment agency Manpower Inc. The survey says that 32% of the companies expect to hire new workers, while only 5% plan layoffs. The increase in hiring plans was not large, but it implies a continuing trend of strong job growth. The projected demand for new workers was the strongest in construction, followed by retailers and wholesalers.

THE EVER INCREASING DEMAND for labor is keeping consumers euphoric. The Conference Board reported consumer confidence fell slightly in May, to 135.2, from 137.2 in April. Both readings are near a 30-year high of 137.4 set in February. The index covering expectations slipped to 112, from 115.8 in April, but households' assessment of the current state of the economy rose to 170, from 169.3. Consumers continue to think jobs are plentiful, fueling their expectations for rising incomes.

Greater confidence in the future also continues to buoy the housing market. Although sales of existing homes fell 2.5% in April, to an annual rate of 4.77 million, the March sales rate of 4.9 million was a record. Resales over the past three months are far higher than any readings in the previous year (chart).

Robust demand, in turn, is pumping up home prices. Both the average and the median price of existing homes sold in April were 6.2% higher than houses sold a year ago. Home buyers are willing to shoulder the higher price because low mortgage rates are keeping monthly payments affordable. And a big part of the current climate of low long-term interest rates reflects the dwindling need for government borrowing.

The new wave of black ink also changes economic view of government economic policy. For years, massive deficits meant that the only policy ship worth sailing was piloted by the Federal Reserve. But now Congress and the White House get to man their own craft. What course they will set is still unclear, but their fiscal decisions will go a long way toward determining the direction of the economy for years to come.

EVEN WITH APRIL'S DIP HOME SALES STAY HIGH



CHILE

THE UPSIDE TO THE SLOWDOWN: RATES MAY FALL

Public and private forecasters are scaling back their outlooks for Chile as a result of the troubles in Asia, high interest rates, and falling copper prices. But the slowdown will keep downward pressure on inflation and pave the way for rate cuts later on.

On May 25, the government reported that domestic spending in the first quarter increased 14.6% from a year ago. The burst of demand offset a plunge in exports and pushed up real gross domestic product by 7.2% from a year ago. The first-quarter performance means the 1998 economy is on track to grow within the 4.5%-to-5.5% range expected by private forecasters and the government of

President Eduardo Frei. But in late 1997, the 1998 outlook had been for real GDP growth between 6.5% and 7%. Chile's real GDP grew about 7% in 1997.

A deteriorating trade position is weighing heavily on the economy. A drop in demand from Asia and a 30% plunge in copper prices over the past year have hurt exports while solid domestic demand has kept imports growing at a double-digit rate (chart). As a result,

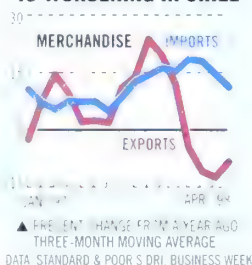
Chile's merchandise trade position for the first four months of 1998 showed a deficit of \$577 million, compared with a surplus of \$811 million in the same period of 1997. The falling price of copper—Chile's major export—has

also caused some businesses to cut back on capital outlays.

Another restraint on growth has been high interest rates. The Central Bank of Chile has kept overnight lending rate at 8.5 percentage points above inflation in order to slow demand and rein in price pressures. The very restrictive monetary policy is producing results. Consumer prices were up just 5.4% in the 12 months that ended in April, despite the 10% devaluation of the peso since last September.

Inflation is set to end 1998 at 5%. That stellar performance—in a country where prices rose by average of 20% annually in the 1980s—will give the central bank some room for rate cuts later on. And lower borrowing costs will keep domestic demand growing into 1999.

WHY THE TRADE GAP IS WORSENING IN CHILE



The sensation of time



CONCORD®

Watchmakers Since 1908

S W I S S

CONCORD

SARATOGA® SL

Pure pleasure
on the wrist...solid,
surgical-grade
stainless steel,
filled by hand,
link by link,
into a timepiece
that quickens
the pulse.



Gents' \$1,990.

tooth enlarged to show detail.

 **BAILEY BANKS & BIDDLE**
WORLD RENOWNED JEWELERS SINCE 1832

WASHINGTON

CLINTON'S TRADE CRUSADE

The Prez issues a bold call for freer markets and stiffer standards

It could turn out to be President Clinton's best and brightest economic move since his 1993 budget-balancing deal—even if few people noticed it. In May, while Americans mourned Frank Sinatra, caught the last *Seinfeld*, and watched trustbusters wrestle with Bill Gates, the White House unveiled a bold agenda for trade expansion that—if it succeeds—could provide a growth path for U.S. exports and the economy into the next century.

In a whirlwind swing through Europe, Clinton called for a new round of global trade talks that he would host next year. He renewed negotiations aimed at knocking down barriers to trade between the U.S. and the European Union. At the World Trade Organization headquarters in Geneva, Clinton chided bureaucrats to be less secretive and more accommodating of labor and environmental standards in negotiations. And finally, he hinted he'd launch a new legislative fight in 1999 to renew his fast-track trade negotiating authority from a reluctant Congress.

After three years of getting almost nowhere on trade issues, Clinton is ready to risk some political capital to go down in the



ory books as the President who sided over the longest economic expansion since the end of World War II—forged the deals to make sure it comes after he goes off to build his presidential library. The initiatives are the more striking given the timing: As Clinton rolls out his plans, the Asian economic meltdown is worsening—illustrating the potential volatility of the new global economy. Already, exports to Asia down 10% compared with a year ago. Once again, investors are worrying U.S. companies won't ride out the storm but will see earnings suffer as a result of the Asian mess. As container ships carry ever larger cargoes of cheap goods to U.S. shores but return empty, and the dollar continues its relentless climb, free trade looks increasingly like a one-way street—and the threat of a never-ending, trade-driven recession seems more questionable.

BACKLASH. Especially in Washington. In the fall, labor-aligned Democrats blocked Clinton's push for fast-track trade negotiating authority because they say deals like NAFTA harm U.S. workers and the environment. Now, there's backlash against free trade among Republicans. Fanned by religious persecution and nationalism in nations that rely on exports to the U.S., they are turning increasingly to trade sanctions to punish transgressors. Example: On May 20, the House voted to bar high-tech exports to China because of allegations that Clinton let a top campaign donor export sensitive knowhow to Beijing. If the President can pull off even half of his new agenda, he might be remembered as the strongest Democratic advocate of free trade since John F. Kennedy. If not, he stands to be blamed for letting slip the greatest opportunity in decades to create truly open global markets. China now contributes nearly \$1 trillion to the U.S. economy and has accounted for a third of its growth since 1992. With Asian markets drying up, the key to continuing export growth will be hammering trade agreements to ensure that U.S.

goods can sell easily in Europe and Latin America.

But Clinton has his work cut out for him. His first challenge is convincing the public that America has more to gain than to lose from cracking open foreign markets. The growing trade gap—headed for a record \$155 billion this year—won't ease public anxiety. The fear: An ever larger current-account deficit will eventually reduce the value of the dollar. That could fuel inflation and drive up interest rates.

For now, there's little cause to worry. On May 26, the dollar hit its highest level in seven years—above 137 yen—thanks in part to the surge of money from Asian investors seeking safety. And, in the short run, the strong dollar is slashing the cost of imported goods and keeping inflation at bay.

But over time, the dollar could suffer whiplash. "A trade deficit that continues this path could eventually cause the dollar to turn around and come back down, and then the Goldilocks economy could come apart with it," warns C. Fred Bergsten, director of the Institute for International Economics.

Clinton's trade agenda is designed to halt that process by boosting exports. On his European trip, the President won agreement from the EU for a new round of bilateral talks, dubbed the "Transatlantic Economic Partnership." It is intended to speed up talks on a wide variety of old issues—agriculture, intellectual property rights, insurance, and telecommunications—and some new ones, such as electronic commerce. To get the Europeans to agree to the regional trade talks, Clinton pledged to water down sanctions in the Helms-Burton law that punish European companies doing business in Iran and Cuba.

In calling for a new round of global talks in Geneva, Clinton warned that trade negotiators must make their deal-making more public and include considerations other than commerce. "We must do more to ensure that spirited economic competition among nations never becomes a race to the bottom in environmental protections, consumer protections, or labor standards," he said.

WTO Director-General Renato Ruggiero

lauded Clinton's proposals as "historic." But the U.S. Congress will be a harder sell. After Clinton narrowly failed last November to secure fast-track trade negotiating authority from the House, he shelved the matter as too hot for this election year. In the meantime, however, Clinton can't expect progress in new trade talks: Negotiators in Latin America and Europe won't put their

best offers on the table unless the President has fast-track authority, which keeps Congress from undoing his deals.

This time, Clinton is going back to try to pick up the Democrats he couldn't convince—in part by reviving environmental and labor safeguards in fast-track bills that were approved for Presidents Reagan and Bush. One of last year's anti-fast track Democrats, Representative Nita M. Lowey of New York, applauded Clinton's pro-environment approach in Geneva and, according to her staff, "would be very supportive" if the green portions of the bill were restored.

Some CEOs like Clinton's plan. "We already have high environmental standards in the U.S.," says W. Douglas Ellis Jr., CEO of Southern Mills Inc. in Union City, Ga. "We want an even playing field." Yet, business is wary of burdening trade with too much regulation. "Penalizing countries that don't conform to our particular standards or ways of life, to use trade as

OUT OF BALANCE



TO RESTART INITIATIVES ON TRADE, CLINTON IS...

ACTING at a new strategy to secure fast-track trade negotiating authority from Congress so the President can cut market-opening deals again.

▶ INVITING all members of the World Trade Organization to Washington in 1999 to begin a new round of global talks aimed at eliminating remaining barriers to free trade.

▶ PROPOSING reform to the secretive WTO to allow more public participation and greater attention to environmental and labor issues in future trade treaties.

▶ REVIVING trade talks between the U.S. and the European Union. The goal: a new North Atlantic trade partnership involving agriculture, electronic commerce, and other areas.

▶ WAIVING penalties against France's Total and two partners that violated U.S. prohibitions on investments in Iran by putting \$2 billion in that country's energy development.

a means of changing social policies—we think that's a bad policy," says Maytag Corp. international affairs Vice-President Douglas C. Horstman.

Will labor go along? The AFL-CIO won't reveal under what circumstances it will back more free-trade deals. But it is likely that the cost of securing labor's support—guarantees on foreign minimum wages, for example—will be more than

the Administration wants to pay. And U.S. unions are still unhappy with what they see in Mexico, where, despite NAFTA, *maquiladora* factories have kept most unions out. "Globalization is being threatened by a public attitude of fear, so Clinton's got to find ways of accommodating these issues," says Daniel C. Esty, a law professor at Yale University who was a Bush Administration trade negotiator.

Aware of the pitfalls, the White House will go slow on its fast-track campaign until after election day. But Clinton can wait very long. If he wants to go down as the Democrat who knew how to take care of business, he'll have to keep having America's exports.

By Paul Magnusson in Washington, with De'Ann Weimer in Chicago and Nicole Harris in Atlanta

A MEXICAN STANDOFF JOLTS CAPITOL HILL

There's a nasty fight going on in Tijuana, and it's the last thing free-trade advocates in Washington need. A yearlong struggle by 120 welders at the Han Young *maquiladora* to form their own union turned into a full-fledged strike May 22, when workers shut down the plant after a scuffle, demanding new contract talks and a 35% pay hike.

The Han Young strike is sure to alarm labor advocates and sympathetic Democrats in Washington as the Administration once again tries to build support for fast-track trade negotiating authority. During the 1993 debate over the North American Free Trade Agreement, U.S. labor leaders argued the pact would speed the exodus of manufacturing jobs to low-wage plants with lax labor-law enforcement. Last year, citing jobs lost to *maquiladoras*, labor helped defeat President Clinton's bid for fast-track negotiating authority. "What happens at Han Young is not simply a statement about whether or not NAFTA is working," says Harley Shaiken, a professor of international labor issues at the University of California at Berkeley. "It will be an issue in any new fast track the President proposes."

The *maquiladora* industry, which employs more than one million Mexicans and last year exported \$41 billion in goods, remains fiercely resistant to independent unions. Julio Madrigal, a lawyer for Han Young, says the company will work with whichever union shows it has a majority, but he questions how much support the independent union truly carries. Meanwhile, a union linked to the Mexican government has been organizing and opposes the strike. A recount of the strike vote was taking place on May 27 and a new vote on union registration is slated for May 29. Mexican federal officials argue that labor law was properly



ly enforced at Han Young.

Han Young workers, who assemble tractor-trailer chassis for a Hyundai Corp. subsidiary, began organizing in 1997. They were blocked by the Baja California state labor board, which invalidated their first pro-union vote. But the struggle caught the attention of congressional Democrats. When Mexican President Ernesto Zedillo Ponce de León visited Washington last November, Clinton brought up the Han Young case at the suggestion of Representative David Bonior (D-Mich.).

NO CONTRACT. The Mexican federal government intervened, and the union won recognition in January after a second vote. But Han Young has not negotiated a new contract. The welders currently make about \$70 a week with benefits.

The Han Young case illustrates the weakness of NAFTA's side-agreement on la-

TJUANA TANGLE

The Han Young strike is roiling the *maquiladoras*—and highlighting NAFTA's weakness

bor law enforcement. In April, the U.S. Labor Dept. published a report on Han Young, charging that the local labor board had not enforced Mexican workplace law. Labor Secretary Alexis M. Herman asked for talks with her

Mexican counterpart—the furthest the U.S. can go under NAFTA—but Mexico is waiting for a second report on health and safety issues at Han Young before responding, says Rafael Aranda, director of the Mexican federal office overseeing the NAFTA labor side-agreement. He says the law was enforced. "The workers have the union they voted for."

The clamor over Han Young is loudest north of the border. But the decision on whether to keep opposing the union must come from the south. Whatever happens, the echoes will be strongest in Washington.

By Elisabeth Malkin in Mexico City

COMMENTARY

By Joseph Weber

DOES CANADIAN CULTURE NEED THIS MUCH PROTECTION?

Canada's cultural claims to fame go well beyond hockey and *Ti-tanic* director James Cameron. Authors Margaret Atwood and Mordecai Richler and singers Celine Dion and Neil Young, among many others, prove that Canadian stars can shine brightly worldwide. But to some nervous Northerners, Canadian culture is too fragile to survive without government protection. The big threat: American cultural imperialism.

To keep the Yanks at bay, Canada has long maintained some curbs on sales of American publications and textbooks and on the reach of American radio. But Canada lately has been pushing the envelope of cultural protectionism. One of the most blatant examples: a 1994 law that levied a 80% tax on Canadian ads in Canadian editions of U.S. magazines—in effect, an effort to kill off the invaders. After the U.S. successfully protested to the World Trade Organization, Canada now is trying to develop rules that will assuage its musty WTO partners and still maintain the level of Canadian content the government seeks.

Without protections for Canadian media, the cultural nationalists fear, American magazine interlopers—such as *Time*, *Sports Illustrated*, and *U.S. even BUSINESS*

WEEK—could soon deprive Canadians of the ability to read about themselves in *Maclean's*, *Saturday Night*, *Canadian Business*, and other favorites. American music and the Yanks such as shock jock Howard Stern will dominate the airwaves. And Americans will sell the textbooks shaping young Canadian minds, possibly sans Canadian content.

WID ON RADIO. The nationalists managed to exempt these areas from the North American Free Trade Agreement, but their battle against free trade in culture continues. This time the Canadian cultural

police struck radio first. Federal regulators on Apr. 30 handed down a requirement that at least 35% of music played on local radio stations after January must be Canadian, up from 25% to 30% today—and officials aim to hike the Canadian share to 40% in five years. This rule was helped along by public reaction to Stern, who has been a huge hit on Toronto and Montreal stations for

content—is meeting with fierce opposition in the legislature. Ottawa must assure “a dynamic forum for the expression of Canadian ideas and interests,” says Canadian Heritage Minister Sheila Copps.

Encouraging Canadian content is fine. And it's O.K. to provide support, such as tax incentives or even grants, to industries that a government wants to promote. It's another

thing, however, to hamstring foreign companies so they cannot even try to compete. If the public wants Canadian content, they'll show that in their purchasing and listening habits. Artificial restraints can only deny consumers choices.

BIG LEAD. The worries of the cultural nationalists, moreover, seem overwrought. Despite the popularity of *Time Canada*, *Maclean's* outsells its rival nearly 2 to 1. And while *Woman's Day* has been appearing on Canadian newsstands for over a quarter century, for years it has lost readers in Canada to *Canadian Living*.

Canadians have no reason to be so insecure.



ON GUARD Fear of U.S. cultural imperialism has led to proposals to ban Canadian ads in publications with less than, say, 60% Canadian content

the past 10 months or so and whose foul-mouthed ventings have prompted calls for censorship and the rescinding of radio licenses.

Then, in early May, ideas for new magazine restrictions were leaked to Toronto newspapers. The proposals include a stiff new magazine tax to replace the 1994 levy, this time with a subsidy for Canada-based products, or a ban on Canadian ads in publications with less than, say, 60% Canadian content. Meanwhile, a plan that could permit American textbook publishers to provide books for grades 1 to 8 in the province of Ontario—with appropriate Canadian

Their fellow citizens are thirsty for domestic news, as proved by the popularity of such newspapers as *The Globe & Mail* and the promise of a forthcoming national daily from publisher Conrad M. Black. *The New York Times* and *The Wall Street Journal* remain mere curiosities north of the border. If Canadians prefer Canadian goods, let them make that choice on their own. After all, open competition for their attention will spawn the best products.

Weber is *BUSINESS WEEK's* Toronto bureau chief.

WORKPLACE

OOPS, THAT'S TOO MUCH DOWNSIZING

Bell Atlantic North faces a monstrous labor crunch

With unemployment at 4.3%, companies everywhere are scrambling for help. But if you want to hear about a real labor crunch, ask the former Nynex Corp., now part of Bell Atlantic Corp.

Bell Atlantic North—as the Nynex unit is now called—got caught in an increasingly familiar trap: Having launched a reengineering and cost-cutting program, it now discovers that it has gone too far. If it can't reverse the reengineering machine, it could lose as many as 14,000 line installers and clerical staffers—almost a third of its unionized workforce—by August. That's how many workers say they're interested in a juicy buyout that Bell Atlantic North must offer to members of the Communications Workers of America (CWA) before their contract expires Aug. 8.

WRONG FORECAST. Back in 1994, when the deal was being cut, the company thought it would need that many fewer workers. It had an ambitious plan to reengineer work assignments, and it anticipated a slowdown in demand for new lines. Instead of layoffs, Nynex offered the buyout. But the productivity gains necessary to make the plan a success were never achieved. And the plan's forecast of phone-line demand was woefully low. In fact, as James J. Dowdall, Bell Atlantic North's labor relations vice-president, points out, since 1994 the company has added about 1,000 workers. "We're not only not shedding people, we're adding them," he says.

The Baby Bell's predicament speaks volumes about today's labor-short economy—as well as the failures of reengineering. Pushed to trim costs because of mergers, competition, and profit-hungry investors, companies spent the mid-1990s redesigning work routines. But the reengineering often has been difficult to pull off, experts say. And when



BUSY: Workers are being offered fatter pensions if they stay on

the economic expansion kept going, many employers were unprepared for new business.

For example, Boeing Co. struggled unsuccessfully to handle a flood of orders in the midst of an overhaul of its manufacturing process. At first, Boeing put off adding workers, hoping reengineering would compensate. Then, when it tried to hire, it found that the available labor pool was dry.

Aetna Inc. is another victim of overzealous downsizing. After merging with U.S. Healthcare in 1996, it slashed 5,000 workers in an effort to make

**“Most big firms have
tried some version of
reengineering, but many
got burned and won’t
do it again”**

EDWARD E. LAWLER III
Management professor, USC

claims processing more efficient. Instead, customers and providers faced lengthy delays. “Most big firms have tried some version of reengineering, but many got burned and won’t do it again,” says Edward E. Lawler III, a management professor at the University of Southern California.

Usually, Lawler says, these overhauls fail because they are “top-down” and

orchestrated by consultants or executives not in operations. They demoralize the remaining workers and hurt productivity.

UNION POWER. Certainly that is the case with Bell Atlantic North. Five years ago, Nynex expected the demand for copper wiring to taper off. Instead, orders surged as consumers added second lines for faxes and modems and new technology made it possible to send high-speed data over copper. Installers couldn't keep up. Nynex executives thought that many operations—such as repairs—could be done with fewer workers. The consultants said: Let the field technician, who fixes problems at a site, run back to the central office to test his work, thus eliminating

central office jobs. The plan worked in rural areas—but not in the traffic-choked New York metro area.

To avert the impending August shutdown, the CWA says Bell Atlantic North is offering a 25% hike in its already generous pension and immediate union recognition when new workers sign union authorization cards. But the CWA says it won't sign off on the deal until Bell Atlantic South O.K.'s a new pact, too.

The CWA has plenty of leverage. “We already got my résumé in at two other companies,” says Tom Porcelli, a 48-year-old line installer in New York City who has been at the company for 29 years. Even though a new employer is likely to pay him less, Porcelli explains that the buyout money and his pension will more than make up the difference, and he'll work shorter weeks than he does now.

No doubt companies have wrung considerable savings from revamping. But the economy keeps expanding at its current rate, employers may have to rethink reengineering—perhaps as something other than reducing the payroll.

By Aaron Bernstein in Washington



TRANSPORTATION

WILL THIS SHORT-HAULER FLY?

MetroJet insists that it can profitably coexist with Southwest

Employees at Southwest Airlines Co. know the drill by now. When US Airways Group Inc. launches its low-fare, no-frills MetroJet operation on June 1, it will be the fourth in five years that a major carrier started an "airline within an airline" to counter low-cost Southwest. Southwest execs say they're ready for battle, but they're hardly quaking. Not very many facsimiles of Southwest Airlines have been successful since regulation of the industry," notes CEO Robert D. Kelleher. Certainly, Delta Express, Shuttle by United, and now United Continental Lite have done little to dent Southwest's growth and profitability. The discount brands "are divisive in nature, and Southwest is offensive," says analyst Samuel C. Strick of PaineWebber Inc. Perhaps that's why MetroJet claims not aiming to blow Southwest out of the sky. US Airways Inc. Chief Executive Kesh Gangwal insists the two can coexist profitably: "We do not view Metro-

Jet as an assault on Southwest Airlines."

Maybe not. But MetroJet is clearly an effort to slow Southwest's attack on the East Coast. Starting with Baltimore in 1993, Dallas-based Southwest has spread to Florida, Providence, and soon, Manchester, N.H. For Southwest, which doubled in size in the past five years, to \$3.8 billion in annual revenues, most growth opportunities are in the east.

That makes Southwest a dangerous challenger to US Airways, a mostly short-haul East Coast carrier with costs 69% above Southwest's. To compete, US Airways has negotiated a new pilot contract for MetroJet, which cuts wage rates by 23%, and a new operating strategy that will increase the use of its aircraft. This, US Airways believes, will dramatically slash Southwest's cost advantage.

MetroJet hopes to erase the losses that US Airways suffers in markets where Southwest and other low-fare rivals have brought down fares. A key focus is on flights from the Northeast and Midwest to Florida, where US Air-

NEW ENTRY: Banking on reserved seating and frequent-flier tie-ins--

ways loses about \$100 million a year.

Gangwal, an architect of Shuttle by United, takes both comfort and caution from prior airline-within-an-airline efforts. Shuttle, created in 1994, provides lucrative feeds to United's longer flights from San Francisco and Los Angeles. The subsidiary line "slowed or stopped Southwest's growth on the West Coast, and they moved elsewhere," boasts Shuttle President Amos S. Kazzaz.

Indeed, Southwest says its intra-California market share was 49.5% in the third quarter of last year, the latest data available, vs. 52.6% before Shuttle started. Still, Chief Financial Officer Gary C. Kelly notes that Shuttle pulled out of four routes where it competed with Southwest and most of its growth has come at the expense of other carriers.

LEISURE TRADE. Delta Express, a lower-cost unit of Delta Air Lines Inc., took a less confrontational approach to Southwest. The carrier's flights are generally longer than Southwest's and focus mainly on low-paying leisure travelers flying from the Northeast and Midwest to Florida. Both Delta Express and Southwest claim to be thriving in the markets where they overlap.

US Airways, going head-to-head with Southwest on many routes at the same airports, may have it harder. "I don't think they have any chance. I think it's a doomed enterprise," says Michael Roach, president of consultants Roberts, Roach & Associates in Hayward, Calif. Kelleher figures he has a 30% to 40% cost advantage over MetroJet. Gangwal denies the gap is that large and says he'll offset it by attracting business travelers with US Airways' frequent-flier program—soon to be linked with American's—and such amenities as reserved seating.

Southwest promises to fight back if need be. But mostly, it's banking on the basics—on-time flights and friendly customer service—that have fueled its success. "At this point, we're not treating this as some kind of all-out war. But we'll be prepared for that if that's what it leads to," vows Southwest's Kelley. However this showdown shapes up, it's already looking good for consumers.

By Wendy Zellner in Dallas

SOUTHWEST'S OPOCATS

METROJET (US AIRWAYS)

Starts June 1 with service between Baltimore and Cleveland, Providence, Fort Lauderdale, and, soon, Manchester, N.H. Matching Southwest fares and one-class service but its costs are higher than Southwest's.

DELTA EXPRESS

Launched October '96. Now 29 jets serving 19 cities, from Northeast and Midwest to Florida. Offers reserved seating but no first class. Longer-haul flights than Southwest's, and overlaps less than 3% of Southwest's system.

SHUTTLE BY UNITED

Pulled out of several Southwest routes since its '94 start-up. Mainly feeds United hubs in Los Angeles and San Francisco. Serves 20 cities with first-class and reserved seating. Covers about 5% of Southwest's system, vs. 13% in '94.

COMMENTARY

By Howard Gleckman

WE DON'T NEED ANOTHER PIGGY BANK

Deductible individual retirement accounts. Nondeductible IRAs. Spousal IRAs, Roth IRAs, education IRAs, 401(k)s, 403(b)s, SEPs, SIMPLEs, Keoghs, annuities, and medical savings accounts. What a mess.

Congress has littered the tax code with a dozen such plans, each with its own arcane rules about who may invest, how much they can save, and how much and how soon they can withdraw. And it is looking to create more. One recent candidate: tax breaks for folks who save for their kids' private schooling. "You've got gratuitous complexity," grumps Tulane University law professor Daniel Q. Posin.

Enough already. Instead of handing out new savings plans like candy for taxpayers, Congress ought to repeal the \$100 billion in annual tax breaks now on the books and lower tax rates instead. Why? Because these plans, which started blooming in 1981, have never achieved their goal of boosting the savings rate. Indeed, since then the savings rate has plummeted, from more than 9% to 4%. Sure, investors are earning great returns in the stock market—pushing up the overall value of savings—but they are putting away less of their paychecks.

If they can't stomach repeal, lawmakers should at least think about creating a single plan that works for everyone—simply. The backbone of

such an approach could be an employer-based program, similar to a 401(k) but with a single set of rules. For the self-employed or those without a job-based plan, the account could simply be administered by the individual.

Into this account, workers could put away each year a chunk of their income tax-free—say, up to \$10,000, or whatever the budget will bear. And employers could still match a portion. When individuals withdraw money, for

Tax-advantaged savings plans are already too numerous—and too confusing

any reason, they would be taxed at their regular income rate. On May 19, the National Commission on Retirement Policy, a bipartisan panel of lawmakers, academics, and executives recommended such an idea—merging all employer-based savings plans into one that might be simple enough to make people save again. Their hope: Strong private savings would take the pressure off the troubled Social Security system.

Up till now, Congress has had little incentive to consolidate. The biggest beneficiaries of these savings incentives—brokers, insurance companies, and banks, which use each

new scheme to sell a hot investment product—are also among the most generous campaign contributors. Moreover, individual tax breaks such as these provide Congress the opportunity to address specific problems, such as the rising costs of health care or education, without wasting political capital on sometimes controversial spending plans.

IRS BASHING. Yet even Wall Street is becoming disenchanted—because investors are so unsure which product to choose. "They put off decisions because they are confused," says PaineWebber Group Inc. Chairman Donald B. Marron. In the end, the multitude of highly publicized breaks such as the new Roth IRA, seems only to be encouraging savers to shuffle funds from one tax-advantaged plan to another.

Now, the politics may be changing as Congress considers privatizing a portion of Social Security—a move that could further complicate an already complex savings system (page 51). Creating a single tax-deferred account could provide a convenient vehicle for individuals to use if Congress approves privatization.

Yet despite all the talk about "simplifying" the tax code, this Congress has done little more than bash the Internal Revenue Service. Lawmakers would be doing voters a bigger favor if they began in earnest to streamline the tax code—starting with savings incentives.

Gleckman covers tax policy in Washington.





Two for the road.

Introducing the Intel® Pentium® II processor for mobile PCs.



pentium® II

The Pentium® II processor is now available in mobile PCs. Which means you can have the best of both worlds: the performance of a desktop PC and the ability to take it anywhere. So go test drive a new mobile PC with an Intel® Pentium II processor and pull into the fast lane. For more information, visit our Web site. www.intel.com/mobile/PentiumII

intel

The Computer Inside.™



DETROIT

FORD BORROWS A BETTER IDEA

It plans to roll out new-car superstores nationwide

HWayne Huizenga should be flattered by what the folks at Ford Motor Co. are engineering these days. Ford is imitating the automotive supermarket concept Huizenga launched two years ago with his AutoNation USA chain of used-car superstores. Ford's twist on a better idea: It's putting all its new cars—everything from a \$10,000 Ford Escort to a \$70,000 Jaguar—under one roof. To pull it off, the auto maker is spending hundreds of millions to buy stakes in existing dealers and merge them into superstores. Says Robert L. Rewey, Ford's group vice-president of marketing and sales: "We're paranoid we're not ahead."

Ford ought to be. Huizenga's AutoNation is well on its way to revolutionizing the way cars are sold in America. In two years, he has built the largest dealer conglomerate, and he has recently proclaimed his plan to build a \$60 billion automotive empire within five years.

IPO AHEAD? While General Motors Corp. and Chrysler Corp. have experimented with superstore selling, Ford is launching a major effort. Rewey just gave the new job of dealer consolidation and superstore creation to long-time Ford Div. Vice-President Ross Roberts, a straight-talking Texan who is popular with dealers. And on May 19, Ford finally persuaded reluctant dealers in Salt Lake City to cash in a dozen dealer-

ships and plunge into the superstore business with the auto maker. Ford is establishing the same setup, dubbed the Ford Retail Network, in Tulsa and San Diego.

Ford executives have told dealers that they plan to convert 10 markets to the new concept by year's end.

Rewey acknowledges he ripped a page from Huizenga's handbook. In the

Ford superstores, car buyers have their pick of the auto maker's brands: Ford, Lincoln, Mercury, Mazda, and Jaguar. They can browse inventory on touch-screen computers and call on salaried sales staff, who are supposed to stop arm-twisting. Prices will be non-negotiable, but substantially below sticker prices since consolidation is expected to yield big cost savings. And for buyers who only want to pick up their car at the store, Ford has begun selling on the Internet.

None of this was an easy sell with dealers—despite Huizenga's inroads. When Ford made its first approach to dealers in Salt Lake City and Indianapolis, the carmaker was sent packing because dealers felt the buyout offers were too meager. What's more, dealers consider the suits in headquarters more adept in the boardroom than the showroom. "The manufacturers don't have a good retailing history and probably never will," says James Mulvaney, among 21 Indianapolis dealers who still reject Ford's idea.

Ford sweetened the pot in Salt Lake City by suggesting an initial public offering of the Ford Retail Network is possible down the road. Suddenly, Ford's buyout price didn't seem so bad. It would have been better two years ago—before Wall Street cooled to dealer IPOs after seeing how hard it is to cut dealer costs. Now, most dealer stocks are trading near 52-week lows.

Even if IPO riches remain a distant prospect, however, dealers and auto makers are realizing the worst strategy now is to do nothing. "If we don't remain flexible," says Salt Lake City Ford dealer Duff Willey, "we'll all be history." That's why more and more Ford dealers are willing to sell their showrooms to the company store.

By Keith Naughton in Detroit

PHARMACEUTICALS

HOT WAR OVER HERBAL REMEDIES

Dietary supplements are in drugmakers' crosshairs

When the Food & Drug Administration ruled on May 20 that dietary supplement Cholestin should be reclassified as a drug, the decision was a major blow to its maker, Pharmanex Inc. Booming sales of the cholesterol-lowering diet supplement have been a big part of the Simi Valley (Calif.) company's growth. The reclassification means Pharmanex will have to stop selling the product together or go through the lengthy process of getting it approved by the FDA.

But 3,000 miles away, executives at Merck & Co. in Whitehouse Station



CHOLESTIN AND EVOLVE: Such pills don't require prescriptions

N.J., were celebrating. Indeed, Merck lobbied heavily for Cholestin to be classified, but the FDA says that wasn't the factor. "Our decision was based on the law," says William B. Schultz, Merck's deputy commissioner of policy.

Why did Merck, a \$24 billion pharmaceutical giant, lash out at a company with less than \$50 million in sales that sells a concoction made from red yeast grown on rice in China? Cholestin contains monacolin, a compound identical to lovastatin, the key ingredient in Merck's cholesterol-reducing drug, Mevacor. Merck says Pharmanex was simply selling a slightly different version of its product without going through the government approval process. And the FDA agrees. Under the FDA decision, Pharmanex can't import the raw material used

YOUR MONEY? OR YOUR HEALTH?

Since day one, the measure of good health care in America has been held hostage by a faulty equation: The most money buys the best care. The unfortunate legacy of the old fee-for-service system is it did a better job of raising costs than quality. ■ Can any system raise the quality

of health care for Americans while controlling its costs?

We believe the answer is an unqualified yes. ■ First off, the best care cannot be defined as the most expensive or the least expensive. *It is the right care delivered at the right time.*

Ideally, it's a measure taken to prevent an illness before it ever occurs. Like an immunization, for instance. Or one that catches a disease early enough that something can be done about it. ■ That's why our women's program was the first to

cover annual mammograms for all women over 40. We know what it costs, but by treating breast cancer in its earliest stages, we also know what it can save. ■ The best care can even halt the progression of chronic disease. Our congestive heart failure program provides a cardiac nurse to educate at-risk members on the importance of taking prescribed medications, and to help them make lifestyle adjustments. The result has been a significant decline in hospitalization rates and an overall improvement in patient well-being. ■ Not coincidentally, our model of prevention, early detection and chronic disease management promotes better health, with the added value of lowering health care costs. Which in turn enables companies such as ours to provide more people than ever the best choices modern medicine can offer. And do so without offering the one choice no one should ever again have to make: Their money? Or their health?



You'll feel better with us.®

the product. Pharmanex is fighting the move in a federal district court in Utah.

Pharmanex co-founder William E. McGlashan Jr. doesn't dispute that Cholestin has mevinolin. But he says it is just one of many natural compounds in the product—and he contends that Merck's real concern about Cholestin is that it would compete directly with an over-the-counter version of Mevacor that Merck has been considering. Such a product would be a clear rival to Cholestin. "It's a commercial move to protect their turf," he says. A Merck spokesman says the company has done some preliminary research on creating an over-the-counter version of Mevacor, but no decision has been made.

"BLOODY WAR." Certainly, Merck is on the defensive in the \$4 billion market for cholesterol-reducing drugs. Since Warner-Lambert Co.'s Lipitor hit 15 months ago, Merck's Zocor and Mevacor have lost market share: Lipitor lowers cholesterol more than competing products at the same dose. Merck is fighting back with aggressive sales pitches, pointing out that studies show Zocor prevents heart attacks and saves lives in patients with high cholesterol and heart disease. "It's a bloody war," says Myron Holubiak, general manager of the Plymouth Group, the consulting arm of health research firm IMS Health Inc.

And it could soon grow more intense. On May 27, a Merck study was published showing that lovastatin reduced the risk of heart attacks in patients with average cholesterol levels.

Merck wants to make sure consumers will buy a drug rather than an herbal remedy. But such nostrums are soaring as baby boomers seek preventive treatments. According to market-research firm Packaged Facts, sales of vitamins, supplements, and minerals in the U.S. should nearly double, from \$6.5 billion in 1996 to \$12.3 billion in 2001.

While Merck fights, some rivals are jumping in. Swiss giant Novartis test-marketed its own natural product for reducing cholesterol in 1997 and this year invested \$3 million in Bionutrics Inc., which makes evolveE, a cholesterol-lowering supplement. Johnson & Johnson hopes to hit the market by early 1999 with products based on a cholesterol-reducing ingredient called stanol ester, which it licensed from Raisio Group PLC of Finland.

Whatever the fate of Cholestin, diet supplements will remain hot commodities. That means Merck and other big players will have to decide whether to try to beat them or join them.

By Amy Barrett in Philadelphia

ENTREPRENEURS

NO LAUGHING GAS MATTER

A dental-tech startup may have hyped its numbers

Last year, Colette Cozean, the 40-year-old chief executive of tiny Premier Laser Systems Inc., was taking bows all over the media, from *ABC News Good Morning America* to *BUSINESS WEEK*, for a new laser device that her company promised would make "drilling" cavities painless.

Now, Cozean is reaching for the novocaine. On May 26, NASDAQ halted trading in Premier after shares fell to 4%—73% off their high on May 9. The company faces multiple shareholder law-

bility of components of the laser-interruption that hurt sales. But claims the problems have now been resolved.

There's another issue that Cozean easily dismisses. Henry Schein Inc., \$1.5 billion powerhouse distributor in the dental business, is currently refusing to pay for \$2.5 million in lasers that Premier shipped to it in December. Schein claims in a press release that it never sent a purchase order for the product and never received an invoice. Premier claims it had a sales agreement with Schein that allowed the distributor to return the product only if there were quality problems. But with no purchase order or invoice to back up this assertion, Premier says that it may have to write off the Schein sales, which had been booked as third-quarter revenue. "As soon as we realized their understanding and ours were different, we announced the possibility of a write-off. But no products have



LASER LAG: Were market and manufacturing potential exaggerated?

suits and a NASDAQ review. Ernst & Young, its wincing audit firm, suddenly resigned, just weeks before the company had to release its results for the fiscal year ended Mar. 31. The accountants also rescinded approval of the Irvine (Calif.)-based company's 1997 numbers.

It has been quite a reversal of fortune for Premier Laser since last May, when the U.S. Food & Drug Administration enthusiastically approved its technology as the first laser for treating cavities. Since then, the lawsuits allege, Cozean has inflated the stock by exaggerating the market potential of her \$39,000 product and her company's ability to produce it. Cozean admits shipments were delayed, because of initial complaints from dentists about the dura-

bility of components of the laser-interruption that hurt sales. But claims the problems have now been resolved.

Can Cozean pull the company out of its dive? A research scientist who headed Premier since it was spun off from Pfizer Inc. in a \$10 million management buyout in 1991, she is dedicated to saving the company through its troubles. She took it public in 1995 on the strength of patents and other FDA-approved technology. In fiscal 1997, sales reached \$5.5 million. But the company has never been profitable: Five-year losses total at \$21 million. This year, Cozean doesn't know if she can get paid for \$2.5 million of lasers and has no auditors to rely on off Premier's results. That's a conundrum for a dentist to fill.

By Kathleen Morris in Los Angeles

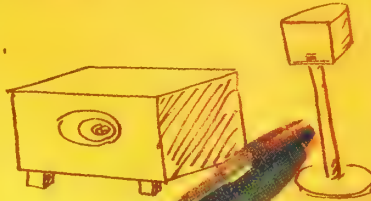
CROSS

8.5x11

New Product Idea

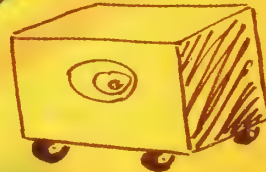
Q3 "Video add on"

100 w subwoofer
+ (2) AK speakers
+ stands

Issues:

Timing for titanium tweeter
Reduce from 8 to 6 weeks

Send specs to
Mullers for
production quote

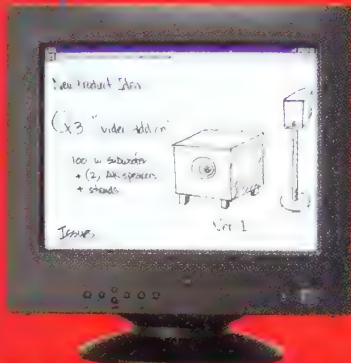


Casters vs. Legs → Ver. 2
Price difference?

upload

A notepad with a memory chip?

(LOOKS LIKE YOUR NOTES JUST GOT A LOT MORE POWERFUL.)



- ▶ Store all of your notes on your PC
- ▶ Access your notes by keyword or date
- ▶ Attach pictures and drawings to text
- ▶ Add and delete your notes dynamically
- ▶ E-mail, print or fax notes from your PC



The CrossPad. With IBM® Ink Manager™ software. Take notes anytime, anywhere. At 2.2 pounds and 3/4" thick, it's lighter and thinner than a laptop. Welcome to the future. 800-510-9680 www.crosspad.com

CrossPad™
PORTABLE DIGITAL NOTEPAD



©2000 IBM Corp. All rights reserved.

In Business This Week

EDITED BY KELLEY HOLLAND

BOOTING UP AN INTEL SUIT

THE FEDERAL TRADE COMMISSION staff may be ready as early as June 3 to recommend that the agency bring antitrust charges against Intel. According to sources familiar with the FTC probe, the staff may ask the five-member commission to charge Intel with using its dominance in microprocessors to hurt rivals. The staff is likely to present evidence that Intel withheld chip supplies and technical information from Digital Equipment and Intergraph after the two sued Intel for violating their patents. Additionally, an FTC action could charge Intel with withholding chips from computer manufactur-

ers that also bought chips from Intel rivals.

BANKBOSTON PICKS A PLUM

HOT PROPERTY: BANKBOSTON is about to announce its winning bid to buy Robertson Stephens for about \$800 million, nearly double what BankAmerica paid for the investment bank a year ago, sources say. The firm went on the block in April after BofA said it would merge with NationsBank. BankBoston edged out Credit Suisse First Boston, PaineWebber, and Dresdner Bank, sources say. The deal would further enrich Robertson Stephens' top execs, who got a \$70 million retention pool when they sold out to BofA. Now BofA may have to pay up—and BankBoston may have to pay even more incentives. Robertson Stephens and BankBoston decline comment.

CLOSING BELL

BANK HOLDUP

The wave of bank megamergers should be a boon for Diebold, a top maker of automated teller machines. In theory, banks that merge and close branches will order new ATMs. But on May 22, Diebold said second-quarter earnings would fall short of analysts' projections of 49¢ to 50¢ per share. By May 27, its stock was at 30¢, down 23%. Diebold says merging banks are adding ATMs slowly while they sort out their holdings. And they're spending tech dollars fixing Year 2000 glitches instead of on ATMs.



MAY 18, '98 MAY 27
▲ DOLLARS
DATA: BLOOMBERG FINANCIAL MARKETS

THE WIND BLOWING BOEING OFF COURSE

ASIAN ECONOMIC WOES ARE taking their toll on orders for Boeing 747s, the company's most lucrative model. Two Asian carriers have backed out of 1998 deliveries, and more may follow, so Boeing executives warned analysts on May 27 that the company may downshift 747 production in mid-1999. "When you talk about taking out 12 of those a year, it's going to have an impact on earnings," says Merrill Lynch analyst Byron Callan. Asian orders for the 777 are also being deferred, but domestic and European airlines are picking up the slack for that model.

GATEWAY: BUY NOW, UPGRADE LATER

WHAT ARE THE BIGGEST barriers to buying a person-

HEADLINER: DENNIS KOZLOWSKI

GIMME, GIMME, GIMME

Doesn't Dennis Kozlowski ever relax? On Memorial Day, Tyco International's CEO unveiled a deal to buy U.S. Surgical for some \$3.3 billion in stock. Tyco has swallowed some 20 companies in the past year and about 100 since Kozlowski got there in 1992.

It may seem a severe case of merger mania. But Kozlowski only chases targets that will strengthen Tyco in one of a few niches—from security alarms to medical supplies—and immediately add to earnings. U.S. Surgical, for instance, will make Tyco a \$4.5 billion player in med-

ical supplies, up from \$100 million in 1993, and Kozlowski says he can cut the company's costs by \$160 million in three years.



Thanks to all the deals, Tyco should earn \$1.8 billion on sales of \$15.8 billion in the fiscal year ending Sept. 30, 1999, says

Credit Suisse First Boston analyst Brian Langenberg up from earnings of \$419 million on sales of \$6.6 billion last year. And its market value now tops \$31 billion, up from \$1.6 billion when Kozlowski took over. With that record, he can afford to take July 4th off

By William Symond

al computer? Consumers overwhelmingly say high cost and rapid obsolescence. So on May 27, Gateway 2000 proposed a solution: Consumers can buy its PCs on time with an option to upgrade when the contract ends—like leasing a car. Dell and Micron have programs for consumers to lease PCs. Compaq and IBM have them for the business market. But Gateway aims to challenge Compaq as the leading home brand. It's a battle that Gateway wants to win badly: Compaq shipped more than twice as many PCs as Gateway in the first quarter of 1998, says Dataquest.

A LYME VACCINE CLEARS A HURDLE

GOOD NEWS FOR SMITHKLINE Beecham: On May 26, an advisory panel of the Food & Drug Administration recommended that the agency

approve SmithKline's vaccine for Lyme disease. But the committee urged SmithKline to continue testing, raising concerns about the extent of the study as well as the possibility that diagnosing the disease would be more difficult in patients who had received the vaccine. The vaccine, designed using new gene technology, must now be approved by the FDA, which usually follows the recommendations of its panels.

ET CETERA...

- Applied Materials will lay off 1,000 workers due to Asian weakness and slow orders.
- Entergy CEO Edwin Liberman is leaving in the wake of poor earnings.
- Former Studio 54 owner Ian Schrager bought two Manhattan hotels May 26.
- May Department Store hired former Caldor CEO John Clarke to run Lord & Taylor.

Announcing

MAXIMUM MILES

from Hyatt

Earn Up To Quadruple Miles At Hyatt
June 1 - August 31, 1998

With MAXIMUM MILES from Hyatt, you can **earn triple miles** with participating airline partners on every stay* from June 1 through August 31, 1998. Or when you charge your stays with the **American Express® Card**, you can **earn quadruple miles** – that's 2,000 miles per stay! To qualify, simply enroll in Gold Passport, Hyatt's worldwide frequent guest program, and stay two times at any of over 180 Hyatt Hotels and Resorts® worldwide. The more you stay, the more you can earn!

Participating Is Easy

- Enroll in Gold Passport and receive your membership account number to participate in MAXIMUM MILES from Hyatt
- Qualify by staying just two times June 1 through August 31, 1998 – you will be credited for all your stays during the promotion, beginning with your first qualifying stay
- Ask for the American Express Card "bonus" each time you charge your stay with the American Express Card
- Hyatt will automatically track your MAXIMUM MILES bonuses and send you the award for which you qualify after October 15, 1998

Gold Passport Membership

Your membership will begin with special privileges and complimentary benefits designed to enhance your Hyatt experience. Enroll now to see how membership makes a difference.

Here's Another Great Deal From Hyatt

Save up to 50% off the published room rates at select Hyatt Hotels in Asia from June 1 through September 15, 1998, and receive special discounted rates at other select Hyatt Hotels and Resorts worldwide. For information and reservations, please call 1-800-233-1234.

To enroll in Gold Passport
visit www.goldpassport.com or call 1-800-51 HYATT

For reservations: 1-800-233-1234

If you are already a Gold Passport member, you must register to participate in the promotion via www.goldpassport.com or by calling 1-800-51 HYATT.



Cards

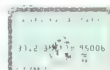
Stay Just Two Times To Qualify

TO EARN TRIPLE MILES ON EACH STAY

- Present your Gold Passport card/account number and airline frequent flyer membership card/account number at check-in
- You will receive the standard 500 miles plus 1,000 bonus miles for a total of 1,500

TO EARN QUADRUPLE MILES ON EACH STAY

- Present your Gold Passport card/account number and airline frequent flyer membership card/account number at check-in
- Charge your stay with the American Express Card and request the American Express Card "bonus" at check-in



You will receive the standard 500 miles plus 1,500 bonus miles for a total of 2,000

Airlines participating in the MAXIMUM MILES from Hyatt promotion: Aeroméxico, Alaska Airlines, American Airlines, British Airways, Continental Airlines, Delta Air Lines, Korean Air, Midwest Express Airlines, Northwest Airlines, Passages (Cathay Pacific Airways, Malaysia Airlines and Singapore Airlines), South African Airways, Thai Airways International, TWA, United Airlines and US Airways. Aeroméxico Club Premier and Passages members choosing kilometers for their stays will receive 1,000 kilometers for every 500 miles/credits awarded. British Airways Executive Club U.K. members choosing Air Miles for their stays will receive 50 Air Miles for every 500 miles/credits awarded. The American Express Card "bonuses" are valid on all participating airlines except: American Airlines, British Airways and Northwest Airlines.

To qualify, you must enroll in Gold Passport and record a minimum of two qualifying stays between June 1 and August 31, 1998. You must also provide your Gold Passport account number at time of reservation and check-in, pay an Eligible rate and provide your airline frequent flyer number at check-in when choosing miles/credits. "Eligible rate" is any hotel published room rate except: airline employee, travel agent industry, intercompany or Hyatt employee discount, permanent contract and hotel contract room rates. To receive the American Express Card "bonus", you must also charge your stay with the American Express Card and request the American Express Card "bonus" at check-in. Gold Passport members must choose to receive only one of the following benefits for each stay: Gold Passport points or airline frequent flyer miles/credits in one of the participating airline programs. If you choose base miles/credits for your stays: The bonus miles/credits earned in this promotion include the 500 base miles/credits normally earned for each qualifying Hyatt stay in which miles/credits are chosen. All base miles/credits earned during this promotion will be posted to your airline account as you record eligible stays, subject to normal mileage posting procedures. In addition to the base miles/credits received, after October 15, 1998, you will receive your MAXIMUM MILES award certificate for the promotional bonus miles/credits for which you qualify. A stay is defined as one or more consecutive nights at Hyatt Hotels and Resorts worldwide, back-to-back stays at a single Hyatt property qualify as one stay. Members paying for multiple rooms will earn credit for one room only. In cases of double occupancy, only one member occupying the room may receive credit toward this promotion. Award stays do not qualify. Eligibility for miles/credits is subject to the terms and conditions of the chosen airline program. Award Certificate: A single award certificate indicating the total bonus miles/credits for which you qualify will be sent after October 15, 1998. Complete award terms and conditions will appear on the award certificate. Hyatt reserves the right to alter or withdraw this program at any time. This promotion is subject to the terms and conditions of the Gold Passport program. This promotion is void if prohibited by local law. Other restrictions may apply. Hyatt Hotels and Resorts encompasses hotels and resorts managed, franchised or operated by two separate groups of companies – Hyatt Corporation and its affiliates and affiliates of Hyatt International Corporation. © 1998 Hyatt Corp. American Airlines® is a registered trademark of American Airlines. In

12

Department/Section

Visas

Entrées/Entrées

-19 APR 1998-

WHAT IF YOU COULD KEEP TRACK
OF YOUR PCs ALL OVER
THE WORLD WITHOUT TRAVELING
ALL OVER THE WORLD?



pentium II

© 1998 Intel Corporation. Intel, the Intel logo, Pentium, and Pentium II are trademarks or registered trademarks of Intel Corporation. Microsoft, Windows, and Windows NT are registered trademarks of Microsoft Corporation. 41998 Hayden-Parkland Company PPG503



*HP Vectra VL with Windows NT starting at \$1,309**

Gone are the days of airplane food, baggage checks and jet lag. Armed with HP Vectra TopTools running on Windows NT® Workstation, you'll never even have to leave your chair. Your department can instantly learn with a few clicks of the mouse what's where, which software is installed and whose machines are in need of immediate attention. Or find out up to 400 other items about the makes, models, speeds, types and settings of the PCs themselves. On thousands of machines simultaneously. No matter where they are: in separate buildings, different cities or even different parts of the world. In addition, the affordable HP Vectra with Windows NT offers scalability, reliability and security. What else would you expect from the fastest growing PC supplier? For more information visit us at www.hp.com/vectra/wnt.



**HEWLETT
PACKARD**

Expanding Possibilities

Things we've noticed about the American workplace:

The price sure as heck better be right.

Bulk anything.
You get a lot
for a better price.

CASE IN POINT:

Chevy Malibu.
You get a lot for
a better price. (Really)



- Up to 100,000 miles before its first tune-up! • More room for five than Camry, Stratus or Contour. • A bigger trunk than Taurus.
- Lubed-for-life chassis. • The bottom line? Trust us, you'll love it.
- 1-800-FLEET-Operations • www.chevrolet.com/malibu

Malibu.

The Car You Knew America Could Build.  Genuine Chevrolet

EDITED BY OWEN ULLMANN

SOCIAL SECURITY HEADS FOR WALL STREET

When "privatization" surfaced 18 months ago as a way to fix Social Security, skeptics dismissed it as a fringe notion peddled by right-wingers out to dismantle the New Deal's greatest legacy. But no one is shrugging off the idea anymore. President Clinton and Congress are scheduled to negotiate a long-term funding solution for Social Security early next year, and their overhaul almost certainly will include private savings accounts that working Americans can invest in stocks and bonds.

Pols across the spectrum are climbing on board. House Speaker Newt Gingrich (R-Ga.) has made private accounts a top budget priority. A bipartisan commission endorsed them on May 1. And they will probably be a hot topic when Vice-President Al Gore chairs a Social Security town meeting in July.

LD GAP. What has shot personal accounts to the list of reform options? Two things: the bulging budget surplus and the stark contrast between double-digit stock-market gains and the retirement system's puny 7% return. With the Treasury expecting \$5 trillion in surpluses over the next decade, Washington sees a painless way to finance private accounts, which would let workers control a portion of the tax money withheld from paychecks for retirement.

"I see lots of \$6- and \$8-an-hour workers managing their own retirement funds," says Senator Bob Kerrey (D-Nebr.). "[Private accounts] are what the American people are coming to expect." Kerrey is eyeing a 2000 Presidential bid built around the idea of using private accounts to generate wealth for low-income Americans.

The momentum behind privatization worries some Clintonites. The President, who is hosting a June 4-5 White House summit on retirement, is open to individual accounts. But Treasury Secretary Robert E. Rubin, concerned about

the effect of a market downturn, is still cool to the idea.

Other Clinton advisers fret that privatization's rise could trigger a liberal counterattack. Clintonites are anxiously awaiting reform plans from Senator Edward M. Kennedy (D-Mass.) and House Minority Leader Richard A. Gephardt (D-Mo.). If they embrace the traditional solution of shoring up Social Security with payroll-tax hikes, they could turn reform into a partisan issue in the fall elections and sink Clinton's hopes of cutting a deal. The White House is also watching whether Democrats will rally behind the option of letting the government invest the Social Security trust fund in stocks.



KERREY: *An issue to ride?*

While the opposition has been quiet, privatizers have been fleshing out their plans. The bipartisan commission of pols, business execs, and policy wonks proposed diverting two percentage points of the 12.4% payroll tax to individual savings accounts for Americans born after 1944. Social Security's basic pension would gradually be trimmed as these accounts take over a growing share of retirement funding.

The plan's weak link: a steep hike in retirement ages to help close Social Security's funding gap. The commission would raise early-retirement age from 62 to 65 by 2017. Full-benefit retirement age, now set to rise

from 65 to 67, would be 70 by 2029. That's "more than the public will stand for," says a Clinton strategist.

Fights over details won't stall privatization, though. Even the American Association of Retired Persons agrees that it is likely to be a major part of a Social Security solution. Of course, reform could be derailed if the GOP pushes for too much or if Democrats resort to scare tactics. But with the head of political steam that privatization has now, it is likely to be the engine pulling Social Security into the 21st century.

By Mike McNamee

CAPITAL WRAPUP

GENTLER CHECCHI

Since his attack ads backfired and sent him tumbling in the polls, former Northwest Airlines Corp. boss Alfred P. Checchi is going positive in a final blitz before California's June 2 Democratic primary for governor. Checchi fell from first place to third, according to a *Los Angeles Times* survey, after he aired negative commercials targeting opponents Lieutenant Governor Gray Davis and Representative Jane Harman. So Checchi, who may wind up spending \$40 million of

his \$700 million fortune, is running new ads featuring a smiling Al eager to hire cops, fix schools, and create jobs.

A FRETTEING FAIRCLOTH?

► First-termer Lauch Faircloth of North Carolina has replaced New York's Alfonse M. D'Amato as the most vulnerable Senate Republican incumbent of '98, say GOP insiders. Party strategists say Faircloth faces a formidable challenge from Democratic nominee John Edwards, a wealthy and tele-genic trial lawyer who's pumping lots of his own cash into the campaign.

A BIG BUNDLE FOR BUSH

► Texas Governor George W. Bush has more than \$13 million on hand for an expected reelection romp against cash-strapped Land Commissioner Garry Mauro. But that's not stopping Washington lobbyists from throwing money at the potential Presidential candidate. Bush had planned a June 18 fund-raiser at a private Washington home for 40 couples. But demand for the \$5,000-a-plate dinner has been so great that it has been moved to a 450-seat hotel ballroom.

SOUTH KOREA

CAN KIM CUT IT?

The hardest reforms remain undone

He has been in power less than 100 days. And so far, President Kim Dae Jung has won unadulterated praise from the International Monetary Fund and other Western leaders for preventing a total collapse of the South Korean economy. The won has stabilized against the dollar. Thanks to the IMF's \$60 billion bailout, a successful \$4 billion global bond offering, and improved export performance, the country has rebuilt its foreign exchange reserves to \$31 billion, from \$3.8 billion in December. "This government is firmly determined and committed to reforms," Kim told BUSINESS WEEK in a May 22 interview.

The question is whether Kim can push those reforms through before another financial crisis erupts. As of May 27, the Korean stock market had lost 12% of its value in just three days of trading. Investors know Kim is trying, but they also know what he's up against. The Japanese are signaling that a major slide in the yen is on the way. That means cheaper competition that

could stop the Korean export recovery in its tracks. Meanwhile, the banks are holding \$85 billion in problem loans, credit is getting scarce, and many small companies are folding. Joblessness is already at 6.7%. Suicides have reached an alarming average of about 25 per day—up 36% from a year ago.

"TRICKY GAME." In this season of despair, any politician would be tempted to loosen credit, prop up companies, and backpedal on reforms. Critics already see signs that Kim is feeling the pressure. Especially worrisome is the government's tacit approval to save Dong Ah Group, Korea's 10th-biggest *chaebol*. Dong Ah's flagship construction company is struggling to service debts of \$3.5 billion—equal to its entire annual revenue. A free-market purist would let Dong Ah go under. But on May 21, its creditors agreed to \$430 million in emergency financing. Lee Hun Jai, chairman of the financial supervisory commission overseeing finance reform, said Dong Ah's failure would "cause the collapse of the financial system."



The previous government of Young Sam used similar logic to avoid painful measures when the economy started to slide last year. One reason says Sogang University economics professor Kim Pyung Joo, is that Kim's economic policy team is full of advisers who actually designed the nation's free-market economic policy under the military regimes of Park Chung-hee



KIM DAE JUNG: Prodding the *chaebol*

'OUR ECONOMY WILL GATHER FORCE'

Kim Dae Jung, the 76-year-old President of South Korea, faces the task of trying to restructure the economy following the Asian financial crisis of 1997. The challenges are enormous: Corporate bankruptcies are soaring, the jobless rate is the highest in 16 years, and militant unions are calling for strikes. But the longtime political reformer is drawing on his lifetime of hardship—threats to his life, six years in prison, and 10 more either under house arrest or in exile—to urge his people to endure the pain of reform.

Kim, who is to meet with President Clinton during a June 6 state visit to the U. S., spoke with Tokyo Bureau Chief Brian Bremner and Seoul correspondent Moon Ihwan at the White House. Excerpts follow:

Q: You have said that the worst crisis will be over by the end of the year. Are you sure?

A: The big pain will be unemployment as banking and corporate sector restructuring will naturally increase layoffs. The number of jobless will

CAPITAL CRUNCH

Seoul plans to have shaky banks merge, then shore up the survivors

Development Institute, a government think tank.

To be fair, the government needs to move gingerly. "This is a tricky game," says one senior Kim adviser. Push too hard to restructure the banks, and the resulting upheaval could trigger a massive run on deposits. And Kim's advisers insist that banks getting public money will be required to sack top management, cut costs dramatically, and revalue their loan portfolios. The decision on which banks will merge is expected in July.

HISTORIC CHANCE. Pulling off such major change in an orderly way is going to take plenty of nerve by Kim's government. The outbreak of violence during labor demonstrations on May 1 suggests that the unions won't yield to layoffs without a fight. Yet Kim, a survivor of decades of conflict with the Korean Establishment, is something of a fighter, too. This set

of challenges is different from Kim's political struggles in the past, but they will require the same kind of intensity that has served him so well. Hanging in the balance is his legacy as the man who saved Korea from economic ruin—or who lost a historic chance to change his country.

By Brian Bremner and Moon Ihwan in Seoul



Chun Doo Hwan. "I doubt their quality will change easily," he figures. It had better. A dozen banks cannot meet international standards for capital adequacy ratios. That's a major warning sign. The government hopes to launch a wave of bank mergers, shore up survivors' capital bases with bond financing, and place the bad loans into a special workout fund. That's O.K.—but

only if the *chaebol* restructure dramatically. Otherwise they still won't be able to pay off their debts to the banks, the banks' bad loans will keep mounting, and sound companies will be starved of desperately needed credit. If the banking crisis and credit crunch are not resolved soon, the economy could be pushed into a "severe depression," says Na Dong Min, a fellow at the Korea

million to 1.6 million. Unless swift measures, a large number of medium-sized companies will close. As reforms take on momentum, the unemployment rate [now 10%] will rise. The government will make efforts to deal with unemployment and inflation. I will also explain to the people that they will have to endure temporary pains for the sake of the future.

the economic outlook going

look at the situation, not the future. When I was elected

in December, foreign exchange holdings stood at \$3.87 billion. But reserves have now reached \$31.4 billion. We could comfortably increase the level to \$40 billion, which is targeted by the IMF. The won's exchange rate once reached 1,800 [to the dollar] but is now stabilizing at just below 1,400. Interest rates once soared to 30% but have since fallen to 17%. If we pursue restructuring with strong determination, we will see more globally competitive Korean enterprises. Our economy will gather force from next year and could achieve 3% to 4% economic growth in the latter half of next year.

Q: Are you satisfied that the big indus-

trial groups, the *chaebol*, are moving quickly enough to restructure?

A: I believe the *chaebol* have begun pursuing reforms actively. And I am confident I can make them do so. Initially, the *chaebol* were unhappy and uncooperative with the government's policies. But now, the *chaebol* are convinced that they have no alternative. We have already enacted five key reform issues agreed to by the *chaebol*. They include more transparency, an end to cross-loan guarantees among *chaebol* subsidiaries, safeguards to improve corporate financial structures by strengthening creditors' monitoring roles, requirements to specialize in profitable core businesses, and making business

"I faced death five times, and I was in prison for six years.... Overcoming stress has been my life story"

owners legally responsible for their management decisions.

The *chaebol* will face difficulties in raising funds overseas and in finding joint-venture partners unless their business activities are transparent and their financial structures are sound. The *chaebol* have started selling profitable businesses and are actively seeking foreign capital. The tempo of corporate sector reform has been a little bit slow, though not too much. It will accelerate.

is done illegally or involves violence and threatens law and order, we will act.

Q: *You have just announced plans to extend \$36 billion to lenders to shore up their capital base and buy some of their \$85 billion in bad loans. Is that enough?*

A: By freeing banks from bad loans, the banks' financial structure will improve and therefore their lending capability will strengthen. Secondly, to

Chinese currency might be devalued. That is something we can't solve by ourselves. The U.S., as the world's strongest economic power, has the responsibility to solve this problem.

Q: *What are your expectations for the upcoming state visit to the U.S.*

A: For the first time in 50 years, we have a philosophy of pursuing democracy and a free-market economy. We are now truly allies with the U.S. I will take this opportunity to explain what we are doing to reform and restructure the economy. I will explain to global investors... that they can now aggressively invest in our country.

Q: *In North Korea, it looks as if Kim Jong Il will finally take over as President after leaving the post vacant since his father died in 1994. Do you expect any changes in relations?*

A: Because we are taking a very rational and sincere attitude, North Korea no longer needs to have suspicions about us. His confirmation as the President will help stabilize North Korea's system and have a positive impact on dialogue between the two sides. I would rather seek steady, step-by-step improvement in our relations with the North instead of a major breakthrough.

Q: *You've been through a lot in your life. How are you handling the stress of running a country in crisis?*

A: As you probably know, I faced death five times, and I was in prison for six years. I was in exile or house arrest for 10 years. Overcoming stress has been my life story. However, there are difficulties. When you are sentenced to death, if you believe in your cause, you don't feel stress. Living with this kind of economic crisis is difficult. It's something you constantly think about.

One of the reasons we have this crisis is that we didn't practice democracy and the free-market system together. If we had, we wouldn't have had collusive interests between business and politics. We wouldn't have had a government-directed economy or the current crisis. I believe that I was right all along.



CRUCIAL LINK: "Pursuing democracy and a free-market economy"

Q: *How tough are you prepared to get if the unions increase labor unrest and resort to violence?*

A: That's a difficult one to answer. On May Day, there were violent demonstrations, but they were not supported by the people. I don't think we will have any major social unrest so that everything collapses. The people won't allow destructive, violent, or unreasonable demands. Also, I think the unions realize that they are being treated differently by this government than previous ones. We allow legal demonstrations in an orderly manner. While we don't want strikes, if they are done in a legal manner, we don't object. If anything

stop small and medium-sized companies from totally failing, we plan to increase lending to them by either increasing the money supply or accepting a fiscal deficit. Financial institutions can no longer be extending loans recklessly. The people and the government will not allow banks to behave as in the past.

Q: *Japan is entering a recession and the yen is weakening. Will that prolong the regional contraction and pressure China to devalue its currency?*

A: I think Japan has to take more drastic measures. I think they will need more pressure from the U.S. There is also the possibility that the

FREE TO BW SUBSCRIBERS!*

the Web site of the world's most widely read business publication

BusinessWeek **ONLINE**

BW PLUS!

Business Week and online-only content, including: Best B-Schools; The Computer Room; Enterprise (for small business); Investors Central; and more

ARCHIVES

All Business Week domestic edition issues back to January, 1991. Fast free searches! A small payment is required only when you decide to view an article

CURRENT ISSUE

The complete contents of all domestic and international editions. Includes all graphics and tables, and selected photos

Plus, we often include longer versions of printed features and original material created exclusively for online readers

Posted on Thursday evening, well before the printed magazine hits newsstands

REGISTER | BW CONTENTS | BW PLUS! | BW DAILY | ARCHIVES | CONTACT US | AD INFO

COVER STORY No longer the wunderkind, Andreessen is out to prove himself all over again	THIS WEEK  THE EDUCATION OF MARC ANDREESSEN	YOUR MONEY Robert Barker looks at Tom Herzfeld's second fund that focuses on Cuba
ADS AND RX'S Why costlier and riskier hypertension drugs outsell cheaper and safer ones		DAILY BRIEFING The Citi-Travelers runup: What's left for investors? George Lucas taps Fox
GROVE'S QUEST In a Q&A, Intel's CEO tells why he's trading the daily grind for the big picture		FIND YOUR FUND BW's Interactive Mutual Fund Sunboard—now updated with new data!

YOUR MONEY

Regular columnists provide in-depth coverage of investing and personal finance

DAILY BRIEFING

News flashes, Q&As, commentaries; market info from S&P MarketScope and S&P Personal Wealth; and much more

FIND YOUR FUND

Our mutual fund database has extensive performance and portfolio data, and Business Week's ratings on 4,000 funds. Updated monthly!

CAREER CENTER

We'll help top-notch talent find top-quality jobs, confidentially and free. And for employers, it's far better than want ads

COMPUTER BUYING GUIDE

Maven, our interactive guide, offers objective computer reviews and rankings based on tests performed by NSTL

TRAVEL CENTER

Meets all your travel needs: Reservations and tickets for flights, cars, and hotels. E-mail notification of low-fare deals. And much more!

*Go to www.businessweek.com, register, and enter a 9-digit code from your mailing label. **Plus:** If you would like to become a subscriber, you can register and subscribe on the Web site—and get *immediate* access to BW Online.

Most read. Best read. Worldwide.
www.businessweek.com



A special version of Business Week Online is available on AOL at Keyword: BW

PROCESSING INFORMATION



[WHAT YOU HAVE]

E-commerce is booming. And card-swiping customer demand is exploding. To stay competitive, your network has to process more quickly than ever before. Enter, our Cheetah® disc drive. At 10,000 RPM, it's the world's fastest. In fact, it's 40% faster than almost anything else out there. Which means your customers can transact at record-breaking speeds, while your network is poised to handle whatever's around the next curve. It's just one of the ways Seagate hardware and software can help protect, analyze and protect your information. So you'll have it, the way you want it. To find out more, visit us at www.seagate.com.

Seagate, the Seagate logo, the tagline, Seagate Backup Exec and Sidewinder are registered trademarks or trademarks of Seagate Technology, Inc.



Twinn

 **Seagate.**

Information, the way you want it..

INDONESIA

HABIBIE'S FIRST HURDLE: HOW TO FEED THE COUNTRY

He must rebuild a distribution system wrecked in the riots

Indonesia's interim President B.J. Habibie is desperate to restore confidence in his riot-torn country. In his first week in office, his son Ilham Akbar and brother Jusuf Effendi resigned from state-run enterprises to avoid charges of nepotism. The President released prominent dissidents to meet demands for political reform, and visited areas rocked by rioting. Then he pledged economic reforms, meeting senior International Monetary Fund official Hubert Neiss to renegotiate a suspended \$43 billion bailout.

But Habibie is only just starting to scratch the surface of a more fundamental problem: how to feed Indonesia's 200 million people and stave off a replay of the food and fuel riots that forced the resignation of President Suharto on May 20. Many of the country's warehouse districts, truck depots, and shopping areas were de-

stroyed by the rampaging mobs. As a result, food is now difficult to deliver and in short supply, and what is available costs 20% more than before mid-May's riots.

The magnitude of the problem is immense. Across the country, some 1,600 public markets, 20 shopping malls, 2,480 small stores, and thousands of trucks used to move the goods between them, were destroyed. Jakarta's main Mangga Dua distribution center covering several city blocks is now a deserted, burned-out shell. All the consumer goods, food, and clothing going in and out of Jakarta



1,600 public
markets, 20
shopping
malls, 2,480
small stores, and thousands of trucks were
destroyed. Food prices are now up 20%

HABIBIE VIEWING THE DAMAGE: RECONSTRUCTION MAY COST \$1 BILLION

stroyed by the rampaging mobs. As a result, food is now difficult to deliver and in short supply, and what is available costs 20% more than before mid-May's riots.

The government has announced plans to rebuild the destroyed areas. The project will cost at least \$1 billion, according to the State Logistics Agency (Bulog), but the government has yet to figure out how to pay for it. Most likely, Indonesia will have to try to find international donors. The trouble is that they're

all wary of throwing money into an unstable situation. The magnitude of the problem is immense. Across the country, some 1,600 public markets, 20 shopping malls, 2,480 small stores, and thousands of trucks used to move the goods between them, were destroyed. Jakarta's main Mangga Dua distribution center covering several city blocks is now a deserted, burned-out shell. All the consumer goods, food, and clothing going in and out of Jakarta

Ironically, Indonesia's refusal to dismantle monopolies despite International

Monetary Fund directives is proving unlikely benefit. The country's food distribution monopolies are controlled by Suharto buddy Liem Sioe Liong's Indofood and by the government-run Bulog. Previous IMF bailout packages had stipulated that these monopolies be opened to competition. In the current crisis, however, the central food distribution system seems to have the best chance of recovering from the disaster and getting food to Indonesia's people. That means the cronyist structures could well remain in their clout.

COAXING THE MERCHANTS. Multinational corporations that do not want to abandon investments in Indonesia are also prepared to help resume food distribution. Last year, Coca-Cola and Unilever Indonesia donated potable water for its 10 bottling plants to drought-stricken towns in central Java. Now, John E. Brady says he is prepared to resume free service in order to help stabilize prices. Bottled water, which skyrocketed.

As the Jakarta government's reserves dwindle, the role of international donors will be critically important. Officially, the government claims net reserves of \$14.7 billion, but most economists think the number is too optimistic. Asian Development Bank and World Bank officials who fled the country during the rioting are now turning and just beginning to consider how to reschedule lending.

But even if the ports, warehouses, and markets are rebuilt, the government will face the return of ethnic Chinese merchants who have long managed the flow of goods to markets in Indonesia. Many of them fled to Singapore after they came scapegoats for high prices. Now the government wants to coax them back.

Those who see Habibie as a stopgap President until elections can be held wonder whether he can muster the credibility required to get funds coming in. In order to do it, he will need to name a reputable technocrat to coordinate the aid effort from various donors. But he doesn't have time to waste. As food continues to be in short supply, the cost of delaying may be the bankruptcy itself.

By Michael Shari in Jakarta



**Linking laptops
to desktops,
accounting
to sales, U.S. to
Europe, and
you to the
Fortune 500.**

To be a global company to succeed today, everyone and everything in the company must be on the same page. Wang Global can provide you with that page. We are an over \$3 billion service and solutions provider, offering a full range of network and desktop solutions to businesses throughout the world. We can design, deploy, maintain and manage a network that integrates your entire company into one efficient, money-making machine. 1-800-262-3696, ext. 1233. www.wang.com

WANG
GLOBAL
Networked Technology Services



BRITAIN

FOR TONY BLAIR, IRELAND WILL BE A HARD ACT TO FOLLOW

A cooling economy and EMU pose thornier problems

The 71% "yes" vote in favor of the Northern Ireland peace deal on May 23 was in many respects a triumph for British Prime Minister Tony Blair. Participants in the peace talks say that Blair's role was decisive in obtaining the agreement in the first place. And the Prime Minister's personal appeals for the trust of the province's Protestants were crucial in shoring up sagging support for the pact. His approval rating, in the 70% range, is near a record high. Says Robert M. Worcester, chairman of the London-based MORI polling organization: "Blair walks on water."

Well, not quite—although Blair's first year in office has been remarkably successful. The cautious Blair would be the first to warn his troops that the next couple of years may be considerably tougher. While he deserves credit for prudent fiscal moves and for the progress he has helped achieve on Northern Ireland, the rest of Blair's agenda is not so far along.

Since taking office last May, Blair has staked out ambitious goals. He wants to help the chronically unemployed, decentralize power to Britain's regions, and

restore his country to leadership in Europe. But first Blair will have to weather an economic slowdown. The government's hope is that Britain will get a soft landing. Indeed, the consensus among private economists is that growth will slow from last year's 3.1% to around 2% this year and 1.5% next.

Still, the next few months will be nail-biters. If the Bank of England, independent for only a year, doesn't get monetary policy right, Britain could slip into recession, raising the odds against welfare-to-work and other Blair initiatives. And lower tax receipts would present Blair with much starker choices between fiscal responsibility and pledges to improve education and health care.

BUYING TIME. Economists are divided on whether short-term rates, now at 7.25%, are high enough. Hawks such as the central bank's chief economist, Mervyn King, worry about record-low 4.8% unemployment and February's 4.9% wage hikes. But Alison Cottrell, chief economist at PaineWebber in London, says that with underlying price increases running at only 2.2%, the inflation dragon may be dead. "The bank

WORRIES: A recession would undermine Blair's welfare-to-work plan

may be fighting the last war," she says. Managing Britain's relations with Europe could be even trickier than overseeing the domestic economy. It is assumed that Britain has no choice but to join European Monetary Union, but Blair doesn't seem rushed. He wants the Continental powers to cut taxes and bring their labor policies more in line with Britain's. Otherwise, he worries, membership in EMU could be disastrous for British competitiveness.

Blair also wants to avoid a bitter political fight. According to polls, British antagonism to EMU seems to be softening. But it is still hard to imagine this island nation giving up sterling without a struggle. Another worry is that aligning Britain so closely with the Continental agenda could put the country's external ties outside Europe, including those with the U.S. and the Commonwealth, at risk. "Joining EMU is a bigger sell for us than for others," says Michael Hughes, a director at Baring Asset Management in London.

So Blair may have to play for a long time until he sees the right opportunity to join. In the interim, he must convince his Continental partners and foreign corporations that Britain is still part of the European mainstream. Otherwise, investment in Britain could dry up, and the City of London's preeminence in finance could drift across the Channel. He must also cooperate with the central bank to manage the increasingly volatile pound. Too low an exchange rate against the new euro could produce a protectionist backlash on the Continent, while if the pound moves too high, it could put pressure on British exporters. The current rate of 2.90 Deutschmarks per pound has already sent the British manufacturing sector into recession.

None of this is beyond Blair. The message from his performance on Northern Ireland is that he can take big risks when the timing is right.

But the stakes are higher in Europe. Blair will ultimately gamble his political career on the hope that an emerging generation of European leaders will eventually push the European Union more in Britain's direction. And he will try to water down the long-term Continental goal of political union for all Europe. Some supporters envision this in 10 or 15 years from now, as the "Old Man" of a vastly changed European Union. In the meantime, he has plenty to do on his own turf.

By Stanley Reed in London

she

is comfortable in the conference room.

is at home in the board room.

is in heaven in her hotel room.

who is she sleeping with?



WESTIN

HOTELS & RESORTS

After a long day in the trenches,
there's nothing better than a warm bath and dinner in your PJs.
Unless it's the delicious afternoon tea party (mimosas,
assorted sandwiches & more).

Choose your travel partner wisely.™

Call your travel agent or
1-800-WESTIN-1
www.westin.com

EDITED BY JOHN TEMPLEMAN

IS HONG KONG HEADED FOR A SHOWDOWN OVER DEMOCRACY?

Martin Lee is in no mood to forgive. The chairman of Hong Kong's Democratic Party scored a huge victory in the May 24 elections. His party and its allies won 60% of the popular vote for the Legislative Council. But because popularly elected seats comprise only a third of the Council, Lee will remain in opposition. And he has no intention of helping Chief Executive Tung Chee-hwa and his pro-China government as they face a mounting sea of economic problems. "They run the place, we don't," snaps Lee.

After the election, Tung is weaker than ever. His natural allies, the pro-business Liberal Party, failed to secure a single one of the 20 directly elected seats. The party remains in the Council only because it took 9 of the other 40 seats mostly reserved for business and professional organizations. "This [vote] was a backlash against business," says economist Michael E. DeGolyer at Hong Kong Baptist University.

Lee and his supporters claim their landslide is a mandate for change. They want all 60 Council seats and the Chief Executive to be directly elected in 2000. Tensions will rise, as Tung is loath to act quickly. He was chosen for his job by a small coterie of pro-Beijing *apparatchiks*, so his own democratic legitimacy is weak. He has spent months defending clumsy moves to protect Chinese interests, such as exempting Xinhua, Beijing's news agency, from Hong Kong laws. Besides, Tung is struggling to deliver on his implicit contract with Hong Kong's citizens: prosperity in exchange for limited political rights.

ANGRY VOTERS. Indeed, ordinary voters are getting madder by the minute as Hong Kong is sucked into the vortex of Asia's imploding economy. Unemployment has shot up to 3.9%, from just 2.4% before China's takeover last July—a painful level in a city with few benefits. The stock market has lost all its gains since the start of the year. And real

estate prices have fallen steeply, between 30% and since July.

Worse is yet to come. On May 26, Tung warned that Hong Kong is headed toward a recession. Local businesses now griping that stingy banks are creating a credit squeeze by refusing to grant loans because of soaring bad debt. That will send unemployment up. Already, about 2% of workers still with jobs are rated as underemployed and likely to be on the streets soon, say economists. Hong Kong is losing competitiveness to lower-cost rivals around the region. Meanwhile, the labor force keeps growing as Chinese immigrants pour in. "We will have to live with higher unemployment for a long time," says Ian Perkin, Hong Kong General Chamber of Commerce economist.

Tung may try to salvage the situation through economic measures. He may, for instance, offer retraining programs, infrastructure spending, or industrial development schemes. But unless he implements a convincing program, says economist Joseph Cheng of the City University of Hong Kong, "he will come under tremendous criticism. People now expect the government to do something."

Tung has rigged Hong Kong's political system so that opponents such as Lee can never have real power. But that is no guarantee that Tung can govern effectively. Even with a rubber-stamp legislature during his first year in office, he made a series of missteps. He is flailing as the local economy gets singed by Asia's meltdown. New Legco elections in two years give voters every incentive to rail against Tung's autocratic policies. More Hong Kong people may join Lee's demand for general democracy in Hong Kong as Tung fails to deliver on his promises of prosperity and stability.

By Bruce Einhorn in Hong Kong



LEE: Opposition landslide

GLOBAL WRAPUP

RUSSIA'S MESS GETS MESSIER

► Russia plunged deeper into economic crisis on May 27 as a series of financial blows rocked markets. The Central Bank tripled interest rates, to 150%, in a bid to reassure investors and head off a run on the ruble. President Boris N. Yeltsin's increasingly desperate administration ordered oil companies to cough up millions of dollars in back taxes. But as analysts called for an international rescue package to stop the rot, the International Monetary Fund was holding up

a \$670 million payment due to Russia under a \$9.4 billion loan.

Near panic reigned in Moscow financial markets as the government's funding woes worsened. In one shock, the auction of a 75% stake in state-owned oil company Rosneft failed to draw a single bid at the \$2.1 billion minimum. Moscow set a 25% premium over the \$1.6 billion to \$1.7 billion valuation made by Dresdner Kleinwort Benson. Later, it said it would be ready to accept a lower price at another auction to close in mid-July.

But the government is struggling to

raise cash and service domestic debt on a regular basis. For the third straight week, its Treasury-bill auction failed to raise enough to roll over about \$750 million of maturing debt. The Finance Ministry said it had to buy two-thirds of the \$500 million of bills sold.

Russia's public finances are now in a vicious downward circle. The government can't collect enough taxes or cut spending fast enough to meet conditions on its existing IMF package. That holds up loan installments that could steady the situation and creates an even wider financing gulf to bridge.

Be recognized as a frequent flyer on not one,
but six airlines.

Makes you feel pretty good about how often you fly?



Travel the world smoothly on all six Star Alliance™ airlines —
United Airlines, Air Canada, Lufthansa, SAS, THAI and Varig.

Apply mileage points from qualified flights on any of the six
airlines toward your overall frequent flyer status.

Indulge yourself in any of our partners' lounges. More than
190 around the world are open to eligible First and Business
Class travelers and to Star Alliance Gold members.

Redeem miles for reward travel on any of our six carriers,
giving you more than 600 destinations around the world to
choose from.

Enjoy Priority Check-In on all of our partners' flights. Regardless
of the airline you're flying, a priority counter awaits Star Alliance
Gold members.

Be more confident when trying to fly a sold-out flight. Priority
Wait-List and Priority Standby* put Gold and Silver members
toward the top of the list on any Star Alliance flight.

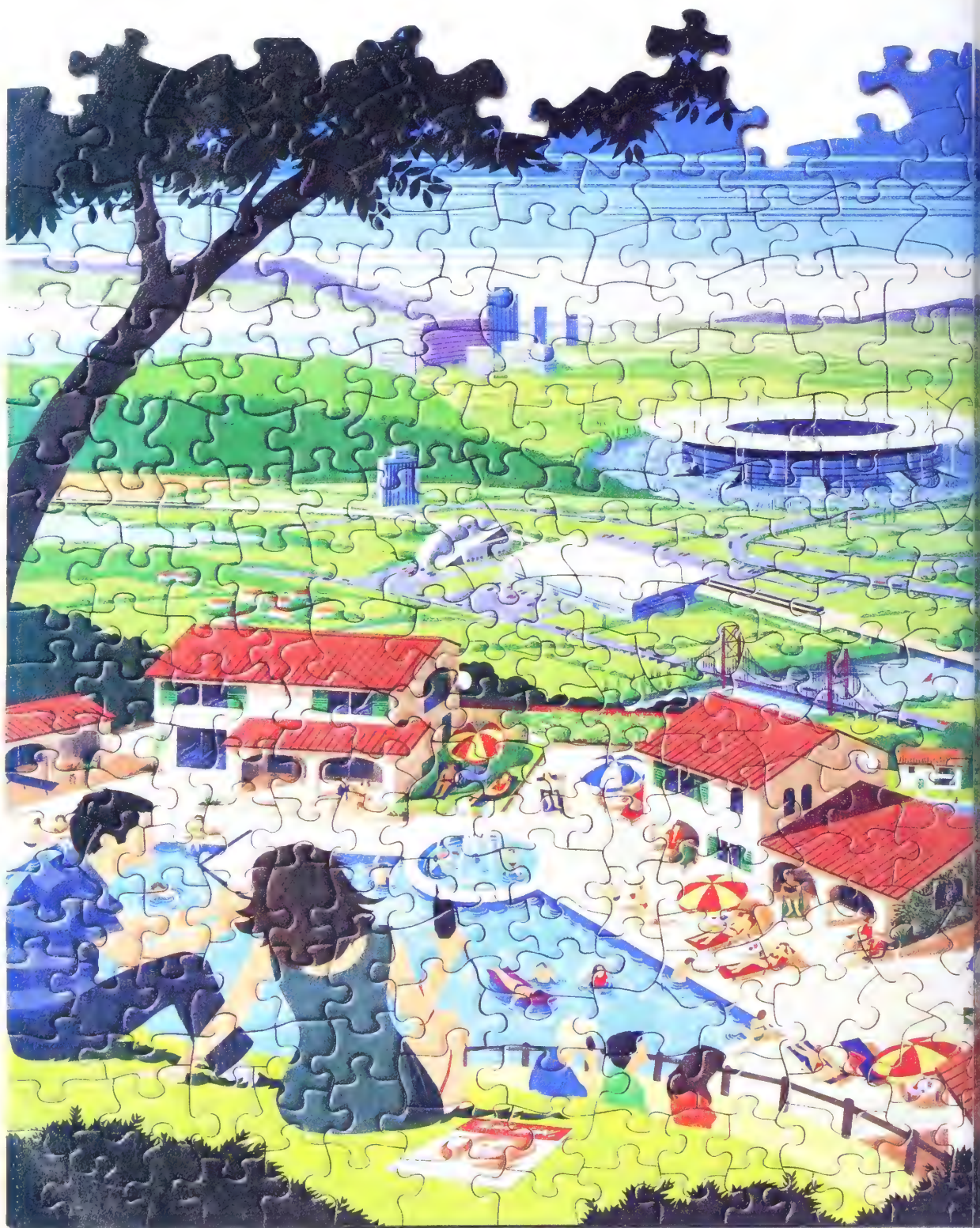
STAR ALLIANCE



The airline network for Earth.



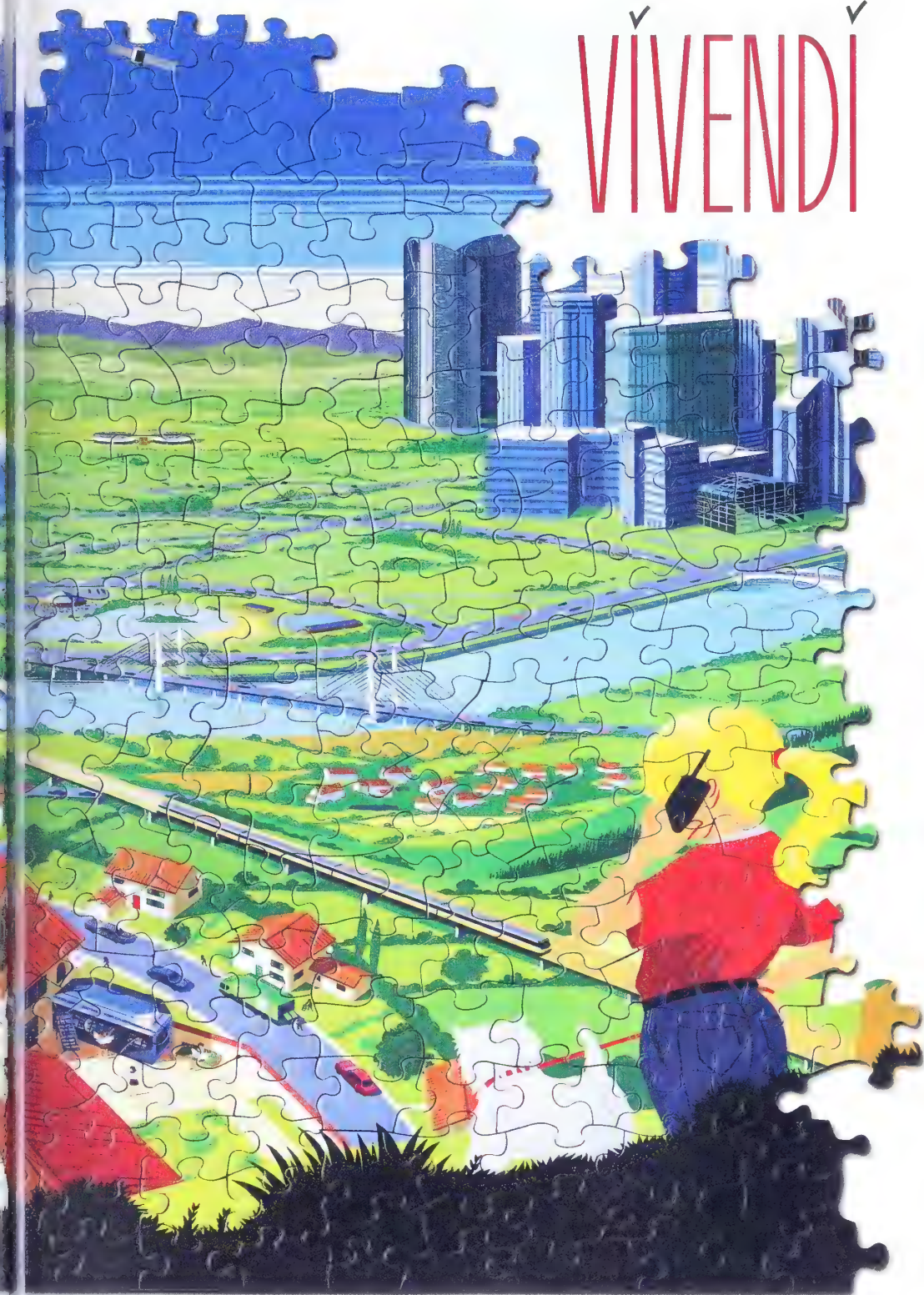
*Where allowed by law.



VIVENDI. COMMITTED TO MEETING YOUR LIFE'S EVER-CHANGING NEEDS

Vivendi is the new name for Compagnie Générale des Eaux. Its role has grown from simply providing people with

VIVENDI



er water, to providing energy, transport systems, waste management, construction and property, commun
tions and telecommunications. In other words, simply to improve your everyday life, today and tomorrow.



World leader in Environmental Services and one of the major European leaders in Communication and Construction, Vivendi employs 220,000 people in 90 countries. Its turnover is close to \$35bn and its net

income is expected to exceed \$1.1bn in 1998. Vivendi's market capitalisation is close to 30bn (mid 1998). Vivendi is part of the DJ Euro Stoxx 50.

In the United States too, Vivendi's activities are every day helping to improve the quality of life for millions of people and the company has annual sales here of \$2.1bn.

Air & Water Technologies, a Vivendi subsidiary, builds and operates water and waste-water facilities for 8 million people in 35 states, including Puerto Rico. Its Metal & Eddy subsidiary has designed and implemented the Boston Bay depollution programme.

In energy, Vivendi is one of the main independent electricity suppliers in the USA. Its Sifthe Energies subsidiary operates 35 plants in several states, representing a global capacity of 4,000 MW. These include Boston Edison's plants and the 1,000 MW Independence plant which plays a part in the lighting of Manhattan.

In the Waste Management field, Montenay Onyx, a subsidiary of Vivendi, operates 5 major "waste-to-energy" plants in North America, including Dade County in Florida, the most important one in the US.

VIVENDI

COMMITTED TO MEETING YOUR LIFE'S EVER-CHANGING NEEDS.

www.vivendi.com

Developments to Watch

EDITED BY NEIL GROSS

SHEDDING LIGHT ON DAMAGED DNA

ASSAULTED BY radiation or toxins, pairs of nucleotides that form the rungs of ladder-like DNA molecules can break (illustration). Sometimes, the assault is deliberate, as when doctors attack a tumor with radiation or drugs. Or the harm might be environmental and lead to cancer or birth defects.

To better measure such damage, scientists at the University of Alberta and the University of North Carolina say they have a new assay that is up to 100,000 times more sensitive than existing tests. They mix samples of DNA



BROKEN: Fluorescent "tags" will help

with a genetically engineered antibody that attaches itself to radiation-damaged DNA. Then a second antibody is introduced that bears a fluorescent tag. This molecule binds to the first antibody and marks the damaged site.

The mixture is then passed through fine glass tubes and excited by a laser. The greater the damage, the more light issues from the illuminated samples. By using different antibodies, researchers say they can tailor the test to recognize gene damage from cigarette smoke and other pollutants as well as radiation. □

FINGERPRINTS FOR ONLINE SECURITY

DOUBLE-TIERED SECURITY technology known as "public key encryption" can keep E-mail messages and other files safe from most prying eyes. Based on complex mathematics, these systems enable message senders to scramble messages using a key made public by the intended recipient. When the message arrives, the recipient unlocks it with a second, private key. But there's a basic problem with this method. The private key is generally a long string of numbers that is not easily memorized. So it is often stored somewhere on a computer hard drive, where it is vulnerable to hackers.

How can a user's private key be kept both handy and secure? Mytec Technologies

Inc. in Toronto has patented a method for linking the user's private key to his or her fingerprint. A scrambled image of the user's fingerprint is tied to the code that forms the private key. The results are stored on the user's desktop PC, portable computer, or palmtop. To activate the key, the user simply places one finger on a small, detachable scanner. Only a correct match will unscramble the key.

A fingerprint, by itself, doesn't contain enough data to function as a private key, says Colin Soutar, director of research and development at Mytec. But used in combination with existing schemes, it could provide secure access to the office network or private Internet accounts. It could also help safeguard credit-card purchases on the Web. *Paul Judge*

IT'S NOT THERE, BUT IT'S NO MIRAGE

FOR CLOSE TO ONE YEAR, Seattle's tiny Microvision Inc. has been shipping an unusual breed of head-mounted display to high-paying military customers. Known as a VRD, for virtual retinal display, the gizmo uses a laser, special lenses, and a high-speed scanning mechanism to "paint" moving images directly onto the eye's retina.

Used in flight simulations, the VRD enables a pilot to study maps, pictures, and computer-generated images while manning the plane's controls. The pilot can see his or her whole environment through a clear viewing lens in front of one or both eyes. At the same time, the pilot can study superimposed digital images that appear to float several feet in front of the VRD.

Today, the light source for a full-color VRD takes up most of a midsize suitcase. The scanners and optics are also bulky.

But Microvision CEO Richard F. Rutkowski says the device will shrink drastically over the coming year and a half. By the end of September, he expects to unveil a prototype in which the scanning assembly will be etched onto a sliver of silicon measuring 0.5 cubic centimeters—just one-hundredth its current size.

In 12 to 18 months, Rutkowski predicts, today's bulky light source will be replaced by tiny laser diodes or light-emitting diodes, which could be fabricated along with the scanner on a single slice of silicon. That would open up consumer applications, such as a pop-up lens on a cellular phone for videoconferencing on the fly.



DOUBLE VISION: Sleek VRDs like this may soon project images in space.

A NEW WEAPON AGAINST CYSTIC FIBROSIS

IN 1989, WHEN THE GENE THAT IS DEFECTIVE IN CYSTIC FIBROSIS was discovered, scientists hoped to treat the disease by giving patients correct copies of the gene. This proved difficult. But now, there may be a promising alternative. The idea is to correct the defective protein made by the gene rather than the gene itself.

The faulty protein appears in about 1 in 3,300 Caucasian births. The result is deadly. Mucus in the lungs thickens and becomes a breeding ground for bacteria. But when a synthetic compound known as CPX binds to the protein, the protein changes shape and does its job better.

CPX's benefits were spotted in the early 1990s by cell biologist Dr. Harvey Pollard, then at the National Institutes of Health. SciClone Pharmaceuticals Inc. in San Mateo, Calif., licensed the drug from the NIH in 1996. Initial human tests show that CPX is safe, and more trials are planned. "This drug treats the basic defect, making a very exciting candidate," says Robert Beall, president of the Cystic Fibrosis Foundation. *John Carroll*

FOR FURTHER INFORMATION: Go to Business Week Online at America Online or E-mail dtwjun@businessweek.com



When you're looking for the most
outstanding
solutions
to your
outsourcing
needs,

there are only **two companies**
to consider...

and they've just
become
one.

The leading food and
facilities management
services provider to
corporations, health care
institutions, higher education
and school systems in the
United States and Canada.

SDH
Listed
NYSE

1-800-763-3946 ext. 85445

www.sodexhomarriott.com


Sodexho Marriott
SERVICES

"Marriott" is a registered trademark of Marriott International, Inc., used pursuant to license. In March 1998, Marriott Management Services, a former division of Marriott International, Inc., combined its operations with Sodexho Alliance in North America. ©1998, Sodexho Marriott Services, Inc.

Copyright © 1994, IBM and other IBM product names are registered trademarks or trademarks of International Business Machines Corporation. Lotus and Domino are trademarks of Lotus Development Corporation and are used under license from Lotus Development Corporation. All other product names are trademarks or registered trademarks of their respective owners. IBM, Lotus, and Domino are trademarks of International Business Machines Corporation. All other product names are trademarks or registered trademarks of their respective owners.

5/390

Parallel Enterprise Server
Generation 2

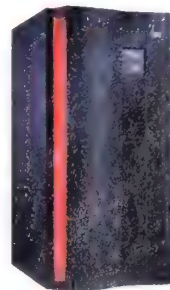


YOU MIGHT BUY THE IDEA
THAT A LOT OF SERVERS
CAN DO THE JOB
OF THE **NEW S/390 G5 SERVER.**

BUT THEN YOU'D
HAVE TO BUY
A LOT OF SERVERS.

IBM S/390 PARALLEL ENTERPRISE SERVER - GENERATION 5™

twice the power of its high-end predecessors, the new CMOS-based S/390 G5 enterprise server easily handles the largest workloads. It supports UNIX®, Java™ and hot new apps like SAP R/3, Baan*, PeopleSoft, Oracle applications and Lotus® Domino™. It even helps reduce cost by enabling server consolidation. And all this can be as a single enterprise system. Looking to do business on the Net? The S/390 server offers Parallel Sysplex® technology with unsurpassed 99.999% availability and bulletproof security. To put a lot more server behind enterprise, visit www.s390.ibm.com/g5 **IBM S/390: The defining standard in enterprise computing.**



 **e-business tools**

SOFTWARE

WHEN THE DEVIL IS IN THE E-MAILS

Casual messages can come back to haunt you—in court



Bill Gates has discovered what CEOs around the globe are just starting to grasp about E-mail: It can—and will—bite. E-mail messages dashed off years ago by the Microsoft Corp. chairman and his top lieutenants now figure prominently as digital “smoking guns” in the Justice Dept.’s landmark antitrust case against the software giant. Trustbusters say electronic messages, perhaps more than any paper document, could help them prove that Microsoft sought to crush competitors and monopolize access to the Internet. “E-mail discovery has got everybody really scrambling,” says Nina

Bondarook, a Microsoft spokesperson.

And not just at Microsoft. As more and more businesses use E-mail to revolutionize their links to clients, suppliers, and customers, they’re facing a whole new Information Age challenge: how to take advantage of vast new levels of communications without getting tripped up by the informal, candid, and sometimes inflammatory missives it can foster. Just last March, for example, Morgan Stanley Dean Witter & Co. agreed to settle a discrimination suit brought by two of its employees. The smoking gun: an E-mailed joke, playing on stereotypes about

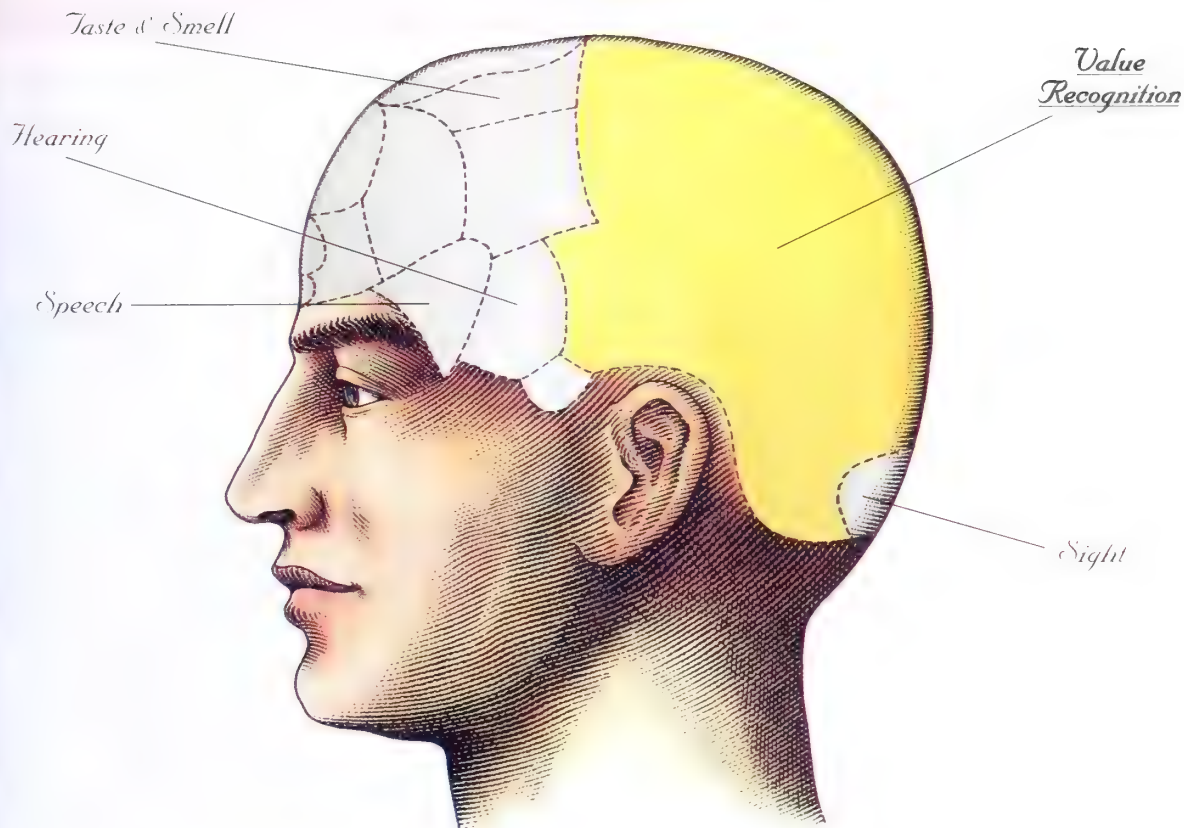
African-American speech patterns, that a colleague had zapped around the office.

This could be just the beginning of what businesses can expect. In the last two years, the growing use of E-mail has made it easier for workers, clients, disgruntled business partners, and litigators to file lawsuits in cases alleging everything from sexual discrimination to stolen trade secrets. Already, some 66 million people use E-mail in U.S. corporations, and that’s expected to explode to 100 million by 2000, according to International Data Corp.

Combine this with data that shows many companies have yet to recognize their E-mail vulnerability, and it’s a recipe for a surge in litigation, experts say. A November, 1997, survey of corporate human resource managers found that barely half, or 52% of companies polled, had written policies governing E-mail use—and of these, only a quarter actually were enforcing them. Just 51% were training workers in appropriate use of E-mail. And fewer than roughly 15%, are treating E-mail the same way they do paper documents when it comes to saving and retrieving information. Says Barry Lawrence, a spokesman for the Society for Human Resource Management, a trade group in Arlington, Va.: “We’ve got to institute people, from the boardroom to the mailroom, but I’m not sure we’re there yet.”

PURGES. Indeed, there aren’t rules of the road for handling E-mail—yet. Experts say, however, that until guidelines are established, the best advice is for companies to deal with E-mail the same way they deal with paper—keep important material and purge the rest. “About the best you can say is that courts don’t want to hear E-mail about where you want to meet your co-worker for lunch today,” says Internet law expert Leo L. Clarke, a partner at the Seattle office of Gordon & Poppel LLP. “But E-mail that helps to describe new product development or answer how something was designed might be what you want to keep.”

But how long must you keep it? There is no surefire answer there either. Some firms are dumping E-mail every 30, 60, or 90 days, while others are stashing everything. Some companies are instead printing out E-mails they think might be important, but even paper copies may not be adequate as a legal record: Printouts don’t re-



Those who fly First Class for the price of Coach share a very highly developed characteristic.

It's been said that we use a mere 10% of our brain capacity. Well, not if you fly ConnectFirstSM from Northwest Airlines. With ConnectFirst, you can fly First Class for the price of Coach. Pretty smart. Just purchase a full-fare Coach ticket on a qualifying connecting flight, and receive an automatic upgrade to First Class upon making your reservation. Plus, an additional 1,000 WorldPerks[®] Bonus Miles roundtrip. So call Northwest Airlines today at 1-800-225-2525, book online at nwa.com, or call your travel agent and ask about a ConnectFirst fare.



ConnectFirst. First Class. Coach Fare. And 1,000 WorldPerks Bonus Miles.



1-800-225-2525 / www.nwa.com

Passenger must travel in First Class. If seats are available. Offer excludes Alaska. Seats are limited. Some restrictions apply. ©1998 Northwest Airlines, Inc. Northwest recycles enough paper products in one year to save over 6,874,000 gallons of water.

vide enough tracking information and can be taken out of context.

Deleting E-mail is no solution, either. Backup tapes are often kept that contain information that's been sent to your electronic trash bin. Moreover, judges are increasingly ready to penalize companies they think haven't done enough to save or uncover E-mail. In a patent lawsuit against Sprint Corp., the company was penalized for "spoliation of evidence"—for not keeping E-mail and other documents that were relevant to its business practices.

The result: Many companies, including Microsoft, keep much of their E-mail—with no way to manage it all. Says Bob Williams, president of Cohasset Associates Inc., a Chicago consulting firm: "My clients describe the management of their E-mail to me in one word: chaos. Managing E-mail is just not happening at most firms today, and it's creating enormous risks."

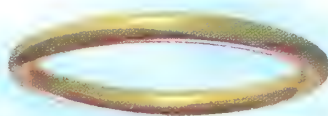
So what's keeping companies from tackling the E-mail monster? Part of the problem may be cultural. Companies worry that monitoring E-mail will trigger employee complaints of Big Brother in the workplace. Tech companies especially tend to view their open E-mail environments as critical to their creativity and are loath to regulate it in any way. "E-mail is fundamental to the way we do business," says Jeffrey S. Raikes, a Microsoft vice-president. "I don't think twice when I'm writing E-mail. In fact, if I start looking over my shoulder every time I think about putting new stuff into the software, then we'll fail."

The cost of managing E-mail may also be an obstacle. Large firms can spend months, and hundreds of thousands of dollars, setting up whole new records management systems, policies, and organizational structures to handle their growing E-mail influx, says Internet law expert Clarke. As expensive as that is, though, it may be cheap compared with the alternative. Some ill-prepared companies have spent upwards of \$1 million or more to comply with E-mail discovery requests, according to Joan Feldman, president of Computer Forensics Inc. in Seattle, a five-year-old company that helps attorneys

mine computerized data in litigation.

Part of the problem may be that companies simply don't know where or how to begin. "What E-mail is appropriate? What isn't? How long do you keep it?" asks Mary Hodges, a spokeswoman for the Association of Records Managers & Administrators Inc., a group of more than 8,000 industry and government data experts.

Hodges' group is scrambling to devise



KEEPING YOUR E-MAIL TROUBLE-FREE

E-MAIL POLICIES Strict policies can limit a company's exposure to lawsuits. The Prudential Insurance Company of America, for example, tells workers their E-mail is monitored and bars transmission of jokes, pornographic material, and other nonbusiness messages.

STORAGE GUIDELINES Companies should develop ways to sort and store important messages and purge the rest. With the volume of E-mails running into the millions per month, such policies are critical to responsible record-keeping.

IN-HOUSE TRAINING Employee training on proper E-mail use can help companies prove good faith in court contests. Cohasset is developing an interactive E-mail education program, for example, that's modeled after software used to train Air Force fighter pilots how to spot trouble.

MONITORING SOFTWARE New programs can help flag inappropriate E-mail, such as offensive jokes. Hughes Hubbard & Reed, a New York law firm, is developing MailCop, a program that alerts workers with flashing on-screen warnings when their incoming and outgoing E-mail may be in violation of company policy.

national standards. Due this fall, the guidelines will offer ways to cope. Included in a draft copy is a suggestion that companies might "wish to destroy magnetic media on which E-mail is stored, in order to preclude the recovery of highly sensitive deleted messages" and a warning: "E-mail systems are subject to the same requirements as any of the other records of an organization."

DIGITAL GOSSIP. In the meantime, some corporations are turning to employee training programs and drafting their own strict E-mail policies. At Prudential Insurance Co., for example, workers are prohibited from using company E-mail systems to share jokes, photographs, and nonbusiness information of any kind. The company enforces the policy by auditing message traffic. Merrill Lynch & Co. requires each employee to sign off on the company's E-mail policy and

hosts informal meetings with employees to go over basic use guidelines intended to counteract people's natural tendency to think their E-mail is confidential. "Despite years of telling workers their E-mail isn't private, we're not seeing the kind of conversation we used to take place by the water cooler and in the bathroom and over lunch in the elevator or inside someone's private executive office now taking place via E-mail," says Howard A. Besse, an information management professor at the University of California at Berkeley.

Other companies are turning to software for help. Citibank, for example, heed Martin, and General Electric have installed Citicorp's SecureDelete Corp.'s SecureDelete electronic shredding program on thousands of desktop computers in the field. Others use shredders with names as SecureDelete, Burn-It, and Terminator to obliterate E-mail that could haunt them later. Hughes Hubbard & Reed LLP, a New York law firm, is developing software called MailCop that uses artificial intelligence to send warnings over word processing computer screens, alerting them when they have sent or received E-mail that could violate company rules. Carol Basri, executive director of the American Corporate Counsel Association in New York: "MailCop is like having your mom with you, right there, telling you not to say bad words."

There is an added incentive to destroy superfluous E-mail: Without routine message-purging, some companies find their computer systems clogged to the point of disruption. A Gallup Poll May found that a typical office worker sends and receives an average of 10 E-mails a day. "Multiply that by 10 workers, and factor in that kind of volume for a month, and you're talking about a major glut here," says Paul E. Fox of the Institute for the Future in Menlo Park (Calif.) technology think tank that commissioned the study.

The print message here: If companies fail to manage their electronic messages, today's digital headaches will become tomorrow's migraines. Just ask Bill Gates.

By Marcia Stepanek in New York with Steve Hamm in San Mateo, Calif.

THEY'RE LINING UP FOR FLICKS IN THE 'HOOD

ew theater chains are building in the inner city—and finding plenty of business

It's Saturday night, and the new theater is jumping. Movie patrons mingle in the spacious Art Deco lobby. The concession stand does a brisk business in popcorn, spicy hot dogs, and fruit juice. Customers duck inside one of the 14 auditoriums. Sinking into extra-wide stadium seats, they listen to rhythm-and-blues jams as they wait for first-run flicks to start.

A suburban multiplex? Try again. This is moviegoing inner-city style, on Chicago's South Side. Theater companies are heading into the hood to build giant multiplexes targeting the African-American community. Sony Corp. already has a deal with basketball great Magic Johnson, running theaters in Atlanta, Houston, and Los Angeles. National Amusements is building a big cinema in Brooklyn. And one of the most ambitious efforts so far is ICE



AMBITION "I want to be the first black-owned theater chain," says ICE Theaters' Don Starks. "No ifs, ands, or buts"

ALISA AND DONZELL STARKS

Theaters, a venture of Inner City Entertainment Inc. and Toronto's Cineplex Odeon Corp. Last fall, ICE opened three theaters in Chicago alone, with plans to open in four more cities in 1999. "I want to be the first black-owned theater chain," says Donzell Starks, Inner City's CEO. "No ifs, ands, or buts."

The timing may just be right. Areas such as Chicago's South Side haven't seen a major movie theater built in decades. Theater developers seeking to tap the inner city followed the boom of suburban shopping malls. But with little room for new screens in that crowded market,

chains are looking elsewhere for growth. And what they have found is a surge in moviegoing by African Americans. Since 1993, blacks' movie-ticket sales have leaped 49%, to \$575 million a year, reports *Target Market News*. Ticket sales overall during that time grew just 20%, to \$5.8 billion.

"DEAL JUNKIE." Those numbers have the big chains revisiting urban sites. Cineplex Odeon, whose 310-theater chain is No. 3 in North America, started researching neighborhoods in Chicago two years ago. But to plunge into the new project, CEO Allen Karp wanted a partner. "We're not

trodding upon someone else's pattern that's proven," he says.

Enter Donzell and Alisa Starks, a husband-and-wife team hoping to parlay their backgrounds in investment banking and marketing into building their own business. Donzell, a self-described "deal junkie," had spent several years managing the Bank of Montreal's Southern California office. Alisa, a marketing veteran, headed the African-American division of BDS Marketing, creating black-oriented promotions for companies such as McDonald's Corp. and RJR Nabisco. Inspired by the success of Los Angeles' Baldwin Theater, a one-screen house, they focused on the theater business. And recalling their own experiences watching theaters in black neighborhoods close, they targeted the inner city. "We want to see *Forrest Gump*, too," says Don Starks.

The Starkses proposed teaming with Cineplex. They would develop the \$45 million project, overseeing the financing, construction, and marketing of three giant theaters, while Cineplex Odeon would operate their 34 screens. Cash was raised from GE Capital Corp. and Chicago's South Shore Bank, with help from D. H. Brush & Associates, a Chicago investment bank where Don Starks once worked. New sites are in the works. Next year, ICE plans theaters in Baltimore; Charlotte, N. C.; Dallas; and Gary, Ind.

It is crucial, say the Starkses, not only to build in the right neighborhoods but

Marketing

also to market to the local African-American community. The Starkses persuaded Cineplex to give the ICE logo prominence on theater marquees, for example, telegraphing to moviegoers that their theaters are special. Other details include using urban radio stations to promote films and featuring Southern favorites such as Louisiana hot links at concession stands.

But the most high-profile marketing efforts are the ones ICE has arranged with prominent African-Americans in Hollywood. For the grand opening of one ICE theater last November, the Starkses and Cineplex officials wanted to give a special screening of *Amistad*, Steven Spielberg's film about a group of slaves' fight for freedom. To get a commitment from DreamWorks SKG, the movie's studio, Alisa Starkes sent a letter

hoops drama, *He Got Game*, Nike Inc. came to an ICE theater and set up a panel discussion including Lee and a group of Chicago basketball legends. It was "a match made in heaven," says Marva Mack, Nike's regional brand manager. "We could've had it anywhere, but we were trying to be more a part of the community."

The question is, how many communities can black-owned theaters serve? Competitor Magic Johnson Theaters (MJT) has shown the expansion road is not always smooth. The rollout of new theaters has not gone as quickly as planned. MJT officials cite difficulties finding real estate that fits the cost parameters set with partner Sony Corp., which controls 50% of the venture. MJT hopes to avoid similar blocks by owning its land and equipment; it simply

BERLIN. THE BEST PLACE

TO CAPTURE

YOUNG TIGER MARKETS.

Packing the House

What black-owned movie theaters are doing to attract a crowd

HOLLYWOOD HELP Moguls such as Spike Lee and *Amistad* producer Debbie Allen attend premieres and panel discussions with moviegoers

SOUL FOOD Concession stands stock more than standard popcorn and sodas, adding Southern favorites such as hot links sausage and popcorn shrimp

SCREEN SAVERS Alongside first-run movies, films targeted to African-American audiences, such as *Soul Food* and *Follow Me Home*, get longer runs and special promotions

explaining that the black-owned theaters were serving the African-American community. "As soon as I saw the letter, I knew that it was the right thing to do," says Debbie Allen, the film's executive producer. "I said 'Child, when is it? I'll be there.'" The film played to a packed house.

HOOP HOOPLA. Such star power has helped the Starkses hit pay dirt. Their biggest site, a 14-screen theater in Chicago's Chatham neighborhood, is among the top three highest-grossing locations of Cineplex' 47 Chicago outlets. ICE officials say their theaters rank in the top 25% of ticket sales for Cineplex' 1,600 U.S. screens.

Success is also attracting a level of attention from national marketers that few theaters can boast. Big-name corporations are clamoring to sponsor events. For a screening of Spike Lee's

contracts out the operating rights to Cineplex.

Another potential obstacle is brewing in the headquarters of the corporate partners of both ventures. Cineplex is in the midst of a merger with SoLoeys theaters. Would the merged company support both ICE and MJT? Neither can say for sure. But the Starkses have prepared for the possibility: They have financing to build the next four sites without Cineplex if necessary, although it would mean securing a new partner to operate the screens.

Industry watchers say if they bite it, movie fans will come. "The urban markets are under-screened," says Alastair Gould, an analyst at Gerard Klauer International & Co. Meanwhile, the handful there will continue serving up first-run movies. With a touch of soul.

By Roger O. Crockett in Chicago

Since 1993, blacks' movie-ticket sales are up 49%, vs. 20% overall

The OECD forecasts annual economic growth of 6 to 10% for the new tiger markets of central and eastern Europe. These markets, connecting to western Europe at a breathtaking pace, surround Germany's capital, Berlin. Berlin offers all the necessary contacts, know-how and modern infrastructure for your business to be in the best possible location to benefit from those rapidly expanding economies. We would be delighted to be of service to you: Berlin Economic Dev. Corp., Fax: + 49 (30) 399 80-239, e-mail: info@wf-berlin.de

Internet: <http://www.berlin.de>

Your Gateway to New Opportunities

Berlin

DCCER

THE REAL MATCH WON'T BE ON THE FIELD

With the World Cup about to begin, two powerful forces are struggling to control professional soccer

The 16th World Cup opens in Paris on June 10, and France will be throwing a monthlong party. It has spent \$1.5 billion to rebuild stadiums and construct new train lines for the more than 2.5 million fans expected to attend. And with a projected billion TV viewers (cumulative), most of the planet will be watching.

But perhaps the most important match for professional soccer will take place two days before the games begin, at a conference center on the Left Bank. The players who will square off are middle-aged, middle-class, middle-weighted, round-bellied sixtysomethings vying for the presidency of the Fédération Internationale de Football Association (FIFA), the powerful organization that controls global soccer.

FIFA sets the game's rules and owns the World Cup. Nearly broke two decades ago, it has parlayed World Cup and marketing rights into an annual cash flow exceeding \$1 billion. Brazil's João Havelange, FIFA's current president, jets around the world like a head of state, bragging that global football generates annual sales of \$250 billion. Still, this gigantic and fast-growing enterprise is under increasing pressure.

Auctions of broadcasting rights are controversial. Bit-by-bit competition between the rich hosts and FIFA plague the 1998 World Cup marketing program. And the method of selling World Cup tickets has left millions of fans bitter and dissatisfied. "We're at a turning point," laments Alasdair Bell, a lawyer who represents Johansson. "Either soccer firms itself as the world's No. 1 sport—the only example of mass popu-



PLANET SOCCER:
MUCH OF
THE WORLD WILL
BE WATCHING
THE MONTH
OF GAMES

Making the Claims Process Less Traumatic

GAB ROBINS USES A COMBINATION OF HOT NEW TECHNOLOGIES AND OLD-FASHIONED HUMANITY TO IMPROVE CLAIMS PROCESSING FOR CLIENTS

A vicious storm decimates a city in the Southeast. Hundreds of people are injured, thousands are homeless. On television broadcasts, announcers intone damage estimates in the tens of millions. People are tired, disoriented and frightened. Many companies and individuals know that they have excellent insurance policies that will enable them to rebuild their lives. What scares them is the claims process — filling out forms, working with adjusters, trying to put a value on what they have lost.

"We are in business to make it as easy as possible for individuals and companies who have been through an unfortunate event to get on with their lives," says David McGirr, President and Chief Executive Officer of GAB Robins North America, Inc., a Parsippany, New Jersey-based leader in claims adjusting, inspection, health-care management, and risk management services for insurers and self-insured companies. "When they inspect

damaged property or meet with injured people, our professionals use technical expertise acquired from years of experience and training. But they are also empathetic—they understand the personal trauma involved and are sensitive to it."

Cutting Edge Technologies

To enhance the human touch, GAB Robins is deploying cutting-edge claims management techniques that use a variety of technological innovations to reduce claims processing time and speed payments. For example, one solution developed for insurance carrier

clients uses Electronic Data Interchange (EDI) to automatically route claim assignment information to the geographically closest claims office. "The system dramatically shortens the period of time it takes to get an adjuster to the scene," says Barbara de Simone, customer interface analyst at GAB Robins. "An important side benefit is that it eliminates the kind of data degradation that occurs when information is entered multiple times."

Technology has also been used to shorten claims processing time once adjusters are in the field. Estimating software helps to determine repair or replacement

costs. Digital photographs of damaged properties can be e-mailed to the claims processing center in minutes. Damage assessments are dictated directly into some insurers' reporting systems. McGirr says GAB Robins is already exper-



David McGirr,
President and CEO
of GAB Robins
North America, Inc.

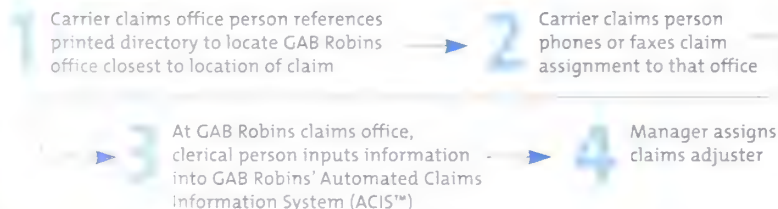
imenting with using voice recognition software that could speed up the claims process even further.

"People" Technology

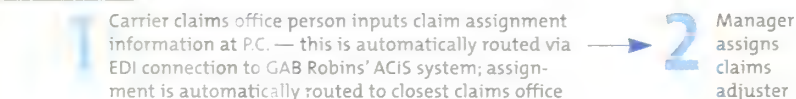
But GAB Robins innovates in "people" technology too. The organization has developed a rent-an-adjuster program that allows a carrier to "plug in" a skill group of adjusters when their in-house claims organization becomes short-handed. "Our adjusters are constantly undergoing technical training, and are specialists in evaluating a wide variety of injuries or losses," says McGirr. "They have tremendous depth of experience to draw from. But above all they value the human relationships that they build. They form a partnership with insurance carriers and self-insureds that they work for, and they are sensitive to the needs of those who have suffered."

EDI-enabled customers can get claim assignments routed to the closest GAB Robins claims office in as little as five minutes

BEFORE EDI



AFTER EDI



Clara Van Hast, a New York-based writer, reports frequently on insurance and risk management.

WHEN A TORNADO HITS:

FIND SHELTER. HOLD ON.
PROCESS CLAIMS QUICKLY.



When disaster strikes, GAB Robins is ready to serve your need for rapid response. By customizing communication links for your claims process and technology environment, we can route a claim assignment electronically to one of more than 600 local GAB Robins offices – even to our mobile Catastrophe unit. So when disasters do strike, we can get a skilled adjuster on-site and get you the information you need to resolve a claim quickly. Questions? answers@gabrobins.com or call **888.888.4242**

**GAB
Robins.**

Sports Business

lar entertainment not dominated by the U.S.—or it self-destructs.”

The Blatter-Johansson election, considered too close to call, will do much to determine soccer's commercial future. Blatter is largely seen as a proxy for the Old Guard that wants to hang on to soccer's traditional structure, while Johansson represents the forces of commercialization, eager to capitalize on the sport's popularity more efficiently.

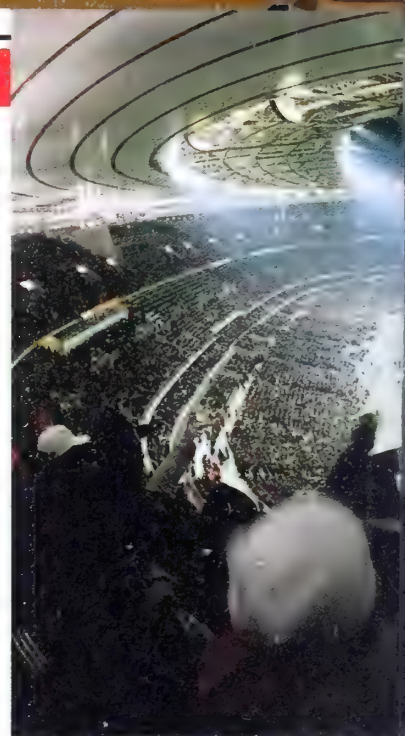
AUTHORITARIAN? Any responsible businessman would understand the problems at FIFA: Like most other longtime amateur sports, soccer lacks effective corporate governance. FIFA, based in Zurich, remains a nonprofit organization that publishes vague financial accounts. Founded in 1904, it now includes 198 national football associations, most with one vote in the upcoming presidential election. Europeans initially dominated the organization. But in 1974, the Brazilian Havelange won power by garnering support from disaffected African and Asian nations.

Critics complain that the 82-year-old Havelange has wielded authoritarian power. This year's presidential election is the first contested since he took over. “When I met Havelange, it was like

meeting the Godfather,” recalls John P. Sugden, a University of Brighton professor and author of the just-published *FIFA and the Contest for World Football*. “Two chaps with machine guns stood outside his hotel room, and this gray-haired man with piercing blue eyes greeted us.”

Havelange is known to stifle dissent and curtail debate. At FIFA's 1994 executive committee meeting in New York, just after the U.S. World Cup, delegates were ready to elect members to FIFA committees. “These committees aren't silly things...they control broadcasting and marketing rights,” says Andrew Jennings, a specialist on international athletic organizations and author of a book on the Olympic movement, *The Lord of the Rings*. When Havelange arrived, he didn't call for a vote. Instead, he handed out a list of personally chosen committee members—giving key positions to his son-in-law, Ricardo Teixeira.

“For many delegates, the 1994 committee choices signaled Havelange's final unacceptable diktat,” recalls Sugden. “They vowed to get him out.” Havelange's opponents include Brazilian soccer legend and former Sports Minister



Pelé. After Pelé pushed through legislation last year to reform Brazilian soccer, Havelange threatened to disqualify Brazil from the World Cup. “It was the reaction of a dictator—precipitate and arrogant,” Pelé has said. After a popular outcry, Havelange withdrew his threat.

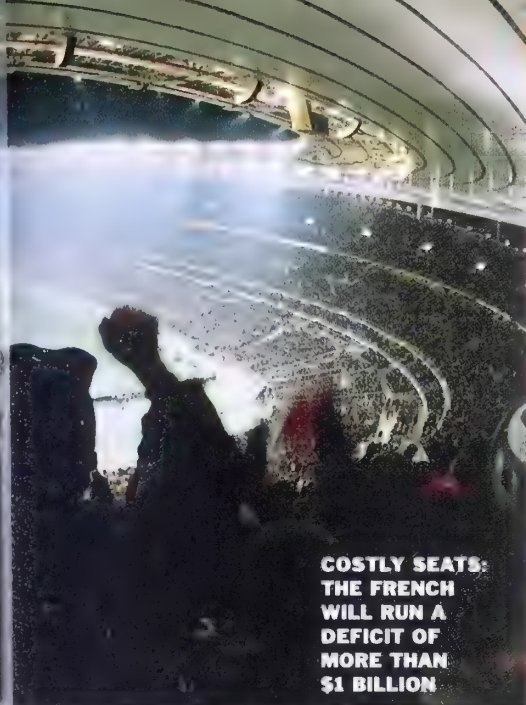
The anti-Havelange camp has rallied



©1990 Hewlett-Packard Company.

For 40 years, Frederic Goudy worked to create one of the world's most beautiful typefaces. Then, in a single day, 4 decades of work was destroyed by fire. So he started over again, recreating his typeface letter by letter.

The least we could do is keep it looking the way he wanted.



**COSTLY SEATS:
THE FRENCH
WILL RUN A
DEFICIT OF
MORE THAN
\$1 BILLION**

and Johansson, president of the Union of European Football Associations (UEFA). The 68-year-old Swede, who served as chairman of flooring company Jo-Jo-Forshaga, is running on a campaign to increase "openness and transparency" within FIFA. When it comes to selling soccer, Jo-

hansson is considered a modernizer. He has promoted Champions League, an annual contest among Europe's biggest and best teams. "Without commercialization, football would stop growing," he says. Johansson also has encouraged teams such as Britain's Manchester United and the Netherlands' Ajax to raise money on the London and Amsterdam Stock Exchanges. "Johansson presents forward-looking ideas," says Ajax's David Endt.

Blatter, 62, once served as marketing director of Longines-Wittnauer Watch Co. but has spent most of his career as a sports bureaucrat. He stresses "tradition." Swiss-born Blatter joined FIFA in 1975 and became Havelange's general secretary in 1981. He opposes soccer clubs going public. To keep a "balance" between rich soccer clubs in big cities and poorer ones in small towns, he wants to limit player salaries and spread TV revenues equally among all teams.

While Johansson has been campaigning for three years, Blatter resigned his post at FIFA and threw his hat into the ring only three months ago. "If Johansson wins, the first thing he is going to do is send in the auditors and find out what happened over the past two decades," says Thomas Kistener, author of the recently released German book *The Billion Dollar Game*. "Havelange has put Blatter in the race in a desperate effort to keep the lid on all the dirty dealings."

"DIRECT CONFLICT." Any investigation into "dirty dealings" would probably start with World Cup TV auctions. Before the 1986 Cup in Mexico City, Havelange sold the rights to Mexico's Televisa for \$33 million. But Televisa chief Guillermo Cañedo also served as FIFA's senior vice-president. "Cañedo was sitting on both sides of the table at the negotiations," says Kistener. "It was a direct conflict of interest." FIFA spokesperson Andreas Herren says Televisa was part of a larger Latin American TV consortium and is Mexico's top broadcaster. "We need a host broadcaster, and we usually go with the biggest station in the host country," he says.

Havelange's judgment has been called

M

Laser print

M

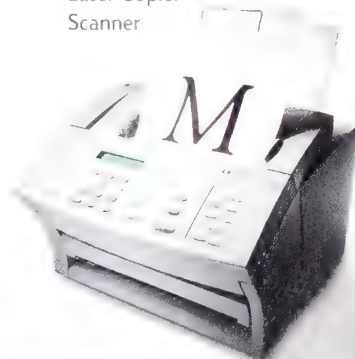
Laser fax

M

Laser copy

The All-in-One HP LaserJet 3100

Laser Printer
Laser Fax
Laser Copier
Scanner



...idly," the way it was intended—whether printed, faxed, copied, or scanned.

...sharpness, clarity and precision of HP LaserJet technology is now available in an all-in-one

The HP LaserJet 3100 gives you professional, 600 dpi black and white documents at impressive

...r speed. It even performs multiple tasks simultaneously. All with the dependability you'd

...ect from Hewlett-Packard. Priced around \$699*. For more information visit www.lj3100.com



**HEWLETT
PACKARD**

Expanding Possibilities

into question in other TV deals as well. In 1988, he sold this year's World Cup rights for \$90 million. "It doesn't make sense to sell off the rights to the biggest show on earth 10 years in advance for such a paltry sum," says Bell, Johansson's lawyer. Counters FIFA's Herren: "The deal allowed us to plan ahead." But when FIFA negotiated the rights for the 2002 World Cup, German commercial broadcaster Kirch and Swiss sports agency ISL Marketing coughed up about \$1 billion.

STRAIGHT TALK. Others question why Havelange awarded global World Cup rights to privately held ISL, which has long been FIFA's exclusive agent and whose chairman, Jean-Marie Weber, is a Havelange confidant. "An intermediary risks pushing the envelope too hard and hurting your image," says Michael Payne, director of marketing at the International Olympic Committee, which sells its own rights. "The trend in this industry is to talk directly with broadcasters in each market." While the Olympics hands over about 50% of broadcasting fees to local organizers, FIFA takes nearly everything.

FIFA's World Cup marketing seems similarly one-sided. The International Olympic Committee deals directly with sponsors and gives local organizing committees a cut. But until now, FIFA has delegated negotiating rights to ISL and taken almost all of the receipts from global sponsors such as Coca-Cola Co. and McDonald's Corp.

France's World Cup organizers have reacted by aggressively selling \$100 mil-

lion in "supplier" contracts to eight companies, including Hewlett-Packard, France Télécom, and Danone. "I can understand why the games need a computer and telephone supplier," says Glen Kirton, ISL's director of football. "But for the life of me, I can't understand why they need a yogurt supplier." Worse, he fears that Danone, which also has beverage interests, is promoting its World Cup connection outside of France, creating global conflicts of interest with Coke, one of ISL's most important supporters.

The French are defiant. "There's no equilibrium in the financing," complains Jacques Lambert, the World Cup Organizing Committee's general director. All told, he says France will run a deficit from the games of more than \$1 billion, largely because it had to build an 80,000-seat stadium just outside Paris. "Future organizing committees should beware," he warns.

Japan and Korea are scheduled to co-host the 2002 World Cup. That unwieldy arrangement threatens duplication and ballooning costs. Korea is budgeting \$1.1 billion. Japan must spend \$4.5 billion to build eight new stadiums. With pressing economic conditions in both countries, they are demanding a bigger cut of the pie. "There is no system for how to divide up the money," says Ryo Nishimura of the Japanese Organizing Committee. "It's very hard to understand what will happen."

ANGRY FANS. Potential World Cup organizers face another headache—too much popularity. More than 25 million requests were made for tickets this year, with only 2.5 million available. When France put its own residents at the front of the queue, the Belgian, British, and Dutch governments all protested. In Belgium and Britain, angry fans are suing.

And FIFA's problems extend well beyond the World Cup held every four years. Costs at the local level, primarily players' salaries, are soaring faster than revenues. In 1995, European players won the right to free agency, sparking an American-style bidding war. So while revenues of Britain's Premiere League



SPONSOR CONFUSION

Several multinationals are shelling out up to \$30 million to be global sponsors...

COCA-COLA
ADIDAS
OPEL
MASTERCARD
CANON
FUJI FILM
GILLETTE
JVC
MCDONALD'S
PHILIPS
SNICKERS

...But eight companies have paid the French organizers a total of \$100 million to be "suppliers"

CREDIT AGRICOLE
DANONE
EDS
FRANCE TELECOM
HEWLETT-PACKARD
FRENCH POST OFFICE
MANPOWER
SYBASE



grew 32% last year, wages grew 31%. "European clubs are spending money as quick as they earn it," says Robert Elstone, an author of Deloitte & Touche's annual soccer survey. Most Italian and Spanish clubs are deep in debt.

Outside of Europe, the sport's finances look even worse. In Brazil, clubs trade players to generate revenues, but as top players leave for Europe, fans are losing interest. In Japan, the poor quality of play in the professional League has fans fleeing. From an average of almost 18,000 in 1993, attendance fell last year to just over 10,000 a game.

Merchandising revenues from shirts and other items have also plummeted—from \$270 million in 1993 to a predicted \$2.4 million this year. And in America, Major League Soccer has seen \$40 million in its first two seasons. With soccer's increasing popularity meaning revenues in many markets are growing by as much as 50% a year.

And marketing opportunities abound

SOCCER KING: VYING TO REPLACE RETIRING HAVELANGE (CENTER) ARE THE OLD GUARD'S BLATTER (LOWER LEFT) AND JOHANSSON, SEEN AS A MODERNIZER

Earlier this year, the Premiere League hired its first marketing director, Stephen Pearson. "I plan to take the Premiere brand around the globe," he says. Targets include the U.S. and China. "We think they will love Arsenal and Manchester United," adds Pearson. His strategy is to sell television rights cheap, build an audience, and leverage the viewership into deals with Coke, McDonald's, and other big names.

PROMISES, PROMISES. The pace of Pearson's plans, and those of other aggressive soccer marketers, will depend to a large degree on the outcome of FIFA's presidential election. Pro-business candidate Johansson started off with solid support in Europe, where soccer is most developed commercially. But

Blatter is said to have won over Britain by promising Prime Minister Tony Blair that his country can host the 2006 World Cup. Johansson supports Germany.



Blatter has picked up momentum, and ghosts could come back to haunt him. In an interview several years ago, the Swede made racist comments about Africans. Since then, he has attempted to repair the damage by having made generous donations to African federations. Their votes could be decisive.

The game is dominated by a group of medieval fiefdoms who play by their own rules and aren't accountable about membership or finances," comments sports professor Sugden. That's probably true, but whoever becomes the new King of Soccer will have to deal with the fact that the game is heading headlong into the modern era of big-money sports.

William Echikson in Paris, with Katz in São Paulo and Sebastian Mott in Tokyo

you

are steps from world-class shopping.
are minutes from famed museums.
are about to duck out of your meeting.



who are you sleeping with?



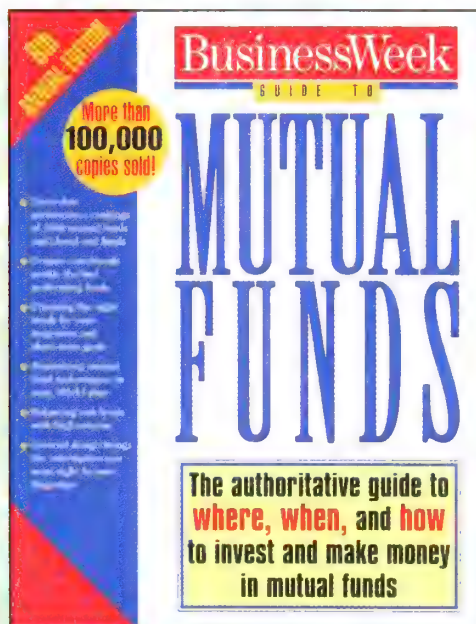
THE WESTIN
GALERIA PLAZA
Mexico City

You like mixing business with pleasure. You'll love The Westin Galeria Plaza, Mexico City. Located off the Reforma Boulevard, The Westin offers Guest Office® rooms that provide what you need to work productively on the road. Not to mention daily international newspapers and continental breakfast in our Executive Floor Lounge, Westin Premier® points and airline miles.

Choose your travel partner wisely.®

Call 1-800-WESTIN-1
www.westin.com

Make the Most of Your Mutual Fund with Invaluable Advice from BusinessWeek



The *BusinessWeek* Guide to Mutual Funds includes:

- Up-to-date performance rankings of more than 1,800 mutual funds—including 3-, 5-, and 10-year results
- The award-winning *BusinessWeek* Mutual Fund Scoreboard
- Expert advice on choosing funds for long- and short-term goals
- Savvy insights on maximizing performance in IRAs and 401(K) plans
- Tips on balancing risk with return
- And much more!

The authoritative guide to where, when, and how to invest and make money in mutual funds

Available at bookstores everywhere
or call 1-800-2MCGRAW.
Visit us at www.books.mcgraw-hill.com

A Division of The McGraw-Hill Companies

AUTO SAFETY

WHEN AIR BAGS AREN'T ENOUGH

Detroit has to address new safety issues raised by the success of light trucks

It could have been the sort of accident that too often shows up in grim highway fatality statistics. On Jan. 17, a Ford F-150 pickup truck traveling at 50 mph broadsided Linda Rasmussen's 1998 BMW 740i in Plano, Texas. The impact crumpled the BMW but caused only minor injuries to Rasmussen, her 12-year-old daughter Jennifer, and their dog Miko. Their salvation: side air bags. "It scares me to think what would have happened without them," Rasmussen says.

Trouble is, most Americans don't own \$66,000 luxury sedans packed with the latest in safety innovations. The typical subcompact, by comparison, is no match in a collision for the pickups and sport-utility vehicles (SUVs) that now account for more than a third of all vehicles on U.S. roads. It's an increasingly urgent dilemma for Detroit: The Big Three must make their cars more crashworthy, like BMW's—but their highly profitable trucks may need a safety overhaul, too. "We're looking more closely than we did in the past at the compatibility of different vehicles," says Jacques A. Nasser, president of Ford Motor Co.'s automotive operations.

CANADA CONFAB. On June 1, when high-level officials from auto makers, federal regulatory agencies, and consumer groups meet in Windsor, Ont., to thrash out auto-safety issues, the car-truck problem will be at center stage. Auto

makers say they are addressing the mismatch by adding side air bags and beefing up the passenger cars' structure. Government officials and safety advocates say Detroit must do more—namely, make trucks lighter, lower, and less menacing. "They have to retool these vehicles, and that's going to cost money," says Clarence M. Ditlow III, executive director of the Center for Auto Safety in Washington and a persistent critic of Big Three trucks.

Big Three execs admit they are under attack. "Do we have the trust of the public on safety that we'd like?" asks Chrysler Corp. Chairman Robert J. Eaton. "Definitely not." The rub: Light trucks and big SUVs such as Ford's Lincoln Navigator and Chrysler's Dodge Durango accounted for most of Detroit's combined record \$16.4 billion profit last year. High-riding sport-utes can't be lowered overnight without dramatic redesigns costing billions—and denting the appeal of such vehicles to buyers who crave heft and height.

Certainly, U.S. highways are safer than ever, with traffic fatalities down 24%, to 41,660, last year from their 1972 peak. The improvement came from a combination of regulation and societal changes—increased seat-belt usage, stiffer drunk-driving laws, better driver-education programs—but also from more solid, better-engineered cars.

In the 1990s, though, highway deaths

have stopped their decline, in part because of the growth of light trucks, which account for 47% of all vehicles sold in the U.S. so far this year, up from 33% in 1990. Car fatalities attributable to collisions with pickups, vans, and sport-utilities averaged 18% of all highway deaths from 1991 to 1996—but the toll was decidedly lopsided. In 1996, car occupants accounted for 81% of the 5,259 killed in truck-car collisions, government statistics show.

That's one reason safety has become a big selling point. Indeed, 93% of respondents in a recent BUSINESS WEEK/Harris Poll called vehicle safety an important factor in car-buying decisions. More than half indicated they would pay extra for new safety features like side air bags, and 26% said they would spend \$1,000 or more. "As new safety features are on the market, the appetite is there," says Jacques daCosta, product research manager at consulting firm J.D. Power & Associates Inc. in Agoura Hills, Calif.

So Detroit is looking for safety solutions—many of which are coming from Europe. The design of Mercedes Be



LOWER FRAME: Mercedes M-class

Making Collisions Safer

Car-truck collisions lead to an outsized number of fatalities. Auto makers are scrambling to address the issue, but most solutions are problematic.

	TRUCK REDESIGN	CAR IMPROVEMENT
SOLUTION	Lower the frames of pickups and sport-utility vehicles and add "crumple zones," as Mercedes has done, to reduce damage caused to smaller cars	Beef up passenger-side impact safety air bags and structural supports, such as used in Volkswagen's new Beetle
COST	High	Relatively low
OBSTACLE	Some SUVs are designed on pickup platforms, so lowering frames would require total reengineering	Air bags and supports in cars don't solve bigger problem: Trucks are still bigger



weight difference," she says. SUVs average 2,000 pounds heavier than typical compact sedans.

In any case, the Big Three can't replicate Mercedes' feat any time soon because their biggest SUVs are built on existing pickup truck frames—which require clearance for a drive-shifting mechanism and heavy off-road use. A lower frame won't happen before the next generation of trucks arrives several years from now. Until then, Ford is studying a grille-like mechanism on the front of its SUVs that would lower when a sensor detects an imminent crash. Toyota's Lexus division is introducing a height-control system on its new LX 470 SUV that lowers the vehicle by four inches when driven at highway speeds. But the Lexus sells for \$55,000, and Ford's proposal is unproven and could end up costing thousands.

That's why, in the near term, Detroit will focus more resources on cars, seeking to lessen the damage in accidents with trucks. "We need to address the

High-riding trucks can't be lowered overnight—

not without a massive redesign that would seriously dent Detroit's record profits

THIS ACCIDENT IN ALABAMA PROVED FATAL FOR THE DRIVER OF THE CAR

fast-selling M-class SUV, for one, vs what a top-to-bottom redesign produce. Mercedes engineers "adjusted compatibility [with smaller cars] the get-go," says National Highway & Transportation Safety Administration chief Ricardo Martinez. As a result the M-class's frame and bumper is 19 inches off the ground, up to 19 inches lower than Detroit's SUVs closer to the height of a typical sedan. In a head-on collision, then, its rear frame will more often hit the side of a passenger sedan, rather than unprotected body steel above. Mercedes also built in a softer "crumple zone" in the frame to absorb crash energy—that, in a stiffer frame, would be absorbed by the lighter car in a collision.

Such engineering doesn't necessarily cost consumers huge bucks: M-class models start at around \$34,000, close to the price of a high-end Ford Explorer. But Big Three safety experts contend that softer crumple zones could lessen the protection of SUV occupants. And Chrysler's safety chief, Susan M. Cischke, is skeptical that a lower frame and bumper would greatly reduce how a heavy SUV damages a lighter car in a crash. "The bottom line is still the

entire vehicle population," rather than just trucks, says Robert C. Lange, engineering director for General Motors Corp.'s North American operations. Safety advocates say the Big Three would do well to emulate Volkswagen's new Beetle, a moderately priced car that uses straightforward design to protect its occupants. The Insurance Institute for Highway Safety announced in May that the Beetle (base price: \$15,700) was the safest of a dozen small cars it evaluated in high-speed crash tests.

The Bug's attributes? Nothing revolutionary. The car has dual door beams to protect front-seat passengers in side impacts, a stiff metal bar behind the front bumper, and a beam that supports the steering column and is attached to windshield pillars. Moreover, the Beetle's unique bow-shaped roof reduces frontal-crash forces by transferring them to the rear of the vehicle. Side air

CONSIDERATION	NEW CAR CLASS
May be restricted by law and weight of car and sport-utility vehicles impose heavy costs on their purchase	Create a station-wagon-like compromise vehicle that combines all-wheel drive and cargo space with less weight and a lower center of gravity
	Moderate
Designs that would revolt. Consumers are too conservative to consider such radical innovation	Perhaps none, except the design and engineering takes years. Such vehicles are in the works



STRUCTURAL SUPPORT: VW's new Beetle

bags, available on very few Big Three cars, are standard on the Bug.

Detroit surely is getting side-air-bag religion. General Motors Corp. has introduced side bags on nine of its car models and plans to increase that next year. Ford will offer the bags on cars and minivans as they're redesigned over the next three years. Chrysler Corp. has trailed its rivals on side bags, but a company insider says "we are moving very quickly in that direction."

Detroit's engineers also are studying a variety of future technologies that could reduce accidents. Among the gadgets under study in Motown's labs are "intelligent" cruise controls that adjust to keep a safe distance from other vehicles and sensors that detect when a driver is falling asleep. Detroit has been talking up such gizmos for decades, though, and most won't be available until well into the 21st century.

In the meantime, carmakers are ex-

perimenting with hybrid vehicles combine the popular cargo space and road capability of an SUV with the and shape of a passenger car. As vehicles roll out in the next few years, consumers who don't need a monster drive up mountains will be able to have a vehicle that's powerful, roomy, sporty—and a lot safer. The question is whether that safer model will still be a money spinner for the Big Three.

By Bill Vlasic in Detroit

ANATOMY OF A CAR CRASH

Thirty General Motors Corp. engineers listen intently as Dr. Stewart C. Wang describes the human toll of a head-on crash. The 22-year-old Ford Probe driver broke a leg and kneecap, but an air bag prevented serious head injuries. The driver of the other vehicle, a Jeep Cherokee, with no air bag to protect him, sustained a severely fractured jaw. "With an air bag, he wouldn't have needed two jaw operations," Wang says.

The engineers know all about air bags, but not so much about broken jaws. And that's the object of the Crash Injury Research & Engineering Network (CIREN), a unique federal program funded in part by GM as the result of a 1994 settlement ending a government inquiry into fires in GM pickups. CIREN links seven U.S. trauma centers studying serious motor-vehicle accidents and shares their findings with the Big Three engineers who design cars and trucks.

CIREN is the pet project of Dr. Ricardo Martinez, the former emergency room physician who heads the National Highway Transportation Safety Administration. "Safety engineers today know more about crash-test dummies than they do about people," Martinez says. CIREN's vivid descriptions and scientific data provide "insights into how the car interacts with its occupants," says Robert C. Lange, engineering director for GM's North American operations.

Wang heads the CIREN unit at the

University of Michigan Trauma Burn Center in Ann Arbor, Mich., where he also works trauma shifts and heads research. He and another doctor, a nurse, and two assistants monitor hospital reports of crashes on handheld radios to see whether they fit the CIREN criteria: side or front-



WANG: Matching injuries to the car parts that cause them

impact crashes in late-model cars that cause serious injuries.

When a victim arrives, the CIREN team photographs injuries, compiles X-rays, and studies medical and police reports. Wang or a colleague interviews victims as soon as possible, and again over the weeks and months that follow. Investigators from the university's Transportation Research Institute supply photographs and data on the vehicles, so Wang can match injuries to the twisted metal and plastic that caused them.

At a table awash in car magazines, Wang reviews the case of a 26-year-old woman whose 1993 Ford Festiva collided head-on with a 1996 Mercury

Villager last December. The victim, who suffered a fractured jaw, two dislocated hips, a broken hip, and a broken leg, told Wang she had worn a shoulder seat belt. "But she didn't put on her lap belt, and that explains the extensive injuries to her lower body," he says. "It points out the limitations of the shoulder belt."

SHARP DOOR. From such research, Wang tells engineers how car components cause certain injuries. A recent accident tore flesh off a woman's hand because the armrest on the car door cracked into sharp pieces. Moreover, a pattern of injuries can yield information that aids future victims. Police in Dade County, Fla., were briefed last year on data indicating that victims wearing only shoulder belts were susceptible to liver lacerations. Soon

after, officers rushed a woman to hospital upon learning she hadn't worn a lap belt, although she had no visible injuries. "She had a liver laceration and could have bled to death," says Lou Brown, the NHTSA official who heads CIREN.

GM's \$5 million underwriting of CIREN is set to expire after 1999. NHTSA sources say the program most likely will continue with alternative funding. That's welcome news to Wang. "Within a few more years, CIREN could have 2,000 or 3,000 cases documented," he says. "There's no telling what we will learn"—and what he can tell the engineers.

By Bill Vlasic in Ann Arbor, Mich.

You see coffee

We see data



©1998 Sprint Communications Company L.P.

Two-thirds of the *Fortune 500*® rely on Sprint's vision of data

Every day, industry relies on data to sell products, satisfy customers and manage people and processes. That's why Sprint, as a leader in advanced data communications, offers a full portfolio of solutions for your applications — from simple e-mail to complex integration of voice, video and data. And that lets us give thousands of companies a competitive edge. We can do the same for you. **Because business runs on data. And data runs on Sprint.** www.sprint.com 1-888-730-DATA

Sprint®

We help your business do more business™

**.WORK THE
WEB**



LOvE AND DEAtH in Akron, Ohio.

The pharmaceutical sales rep is dead. Exhausted.

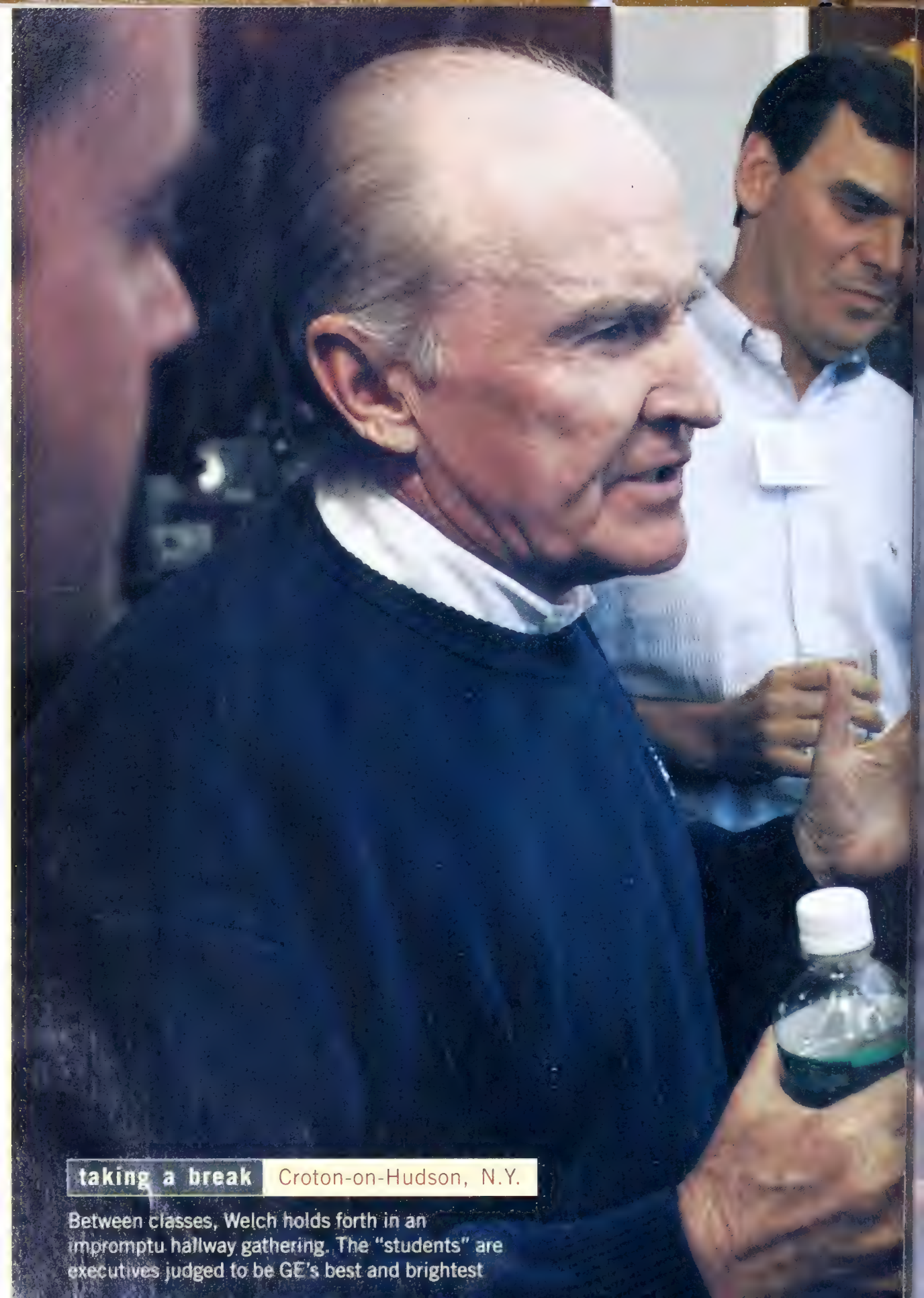
Dog meat. Lying on the bed, he thinks about his day. His flight was delayed two hours. He went into the club lounge and connected to ¹(the company intranet to review shipping status on pending inventory) via the Web. He ²(e-mailed) his customers to inform them their deliveries would arrive early. He lugged his carry-on to the gate. He wedged himself into a coach seat. He arrived at his sales call just in time, only to find his client was running an hour late. He tweaked his presentation, checking his competitors' Web sites, and ³(incorporated key points into his pitch). He made the presentation. He went to the hotel and the smiling clerk gave him a smoking room with twin beds instead of the non-smoking king he had reserved. He turned on a rerun of *Love, American Style*. He connected to the ⁴(contact management system), updated his customer file and sent a call report to the global sales team. He connected to the company benefits intranet and ⁵(calculated the balance in his 401k plan). It was up 4.5%. He falls asleep and sleeps soundly until his next wake-up call. At 5:30 a.m.

THE ⁶(BEST PARTS) OF HIS DAY WERE MADE POSSIBLE BY LOTUS.

¹Lotus Domino™ Web Application Server with IBM DB2® UDB back-end. ²Lotus Notes® mobile messaging. ³Notes replication. ⁴Domino-based Contact Management application developed by Lotus Business Partner. ⁵Lotus eSuite™ spreadsheet applet. ⁶www.lotus.com/worktheweb.

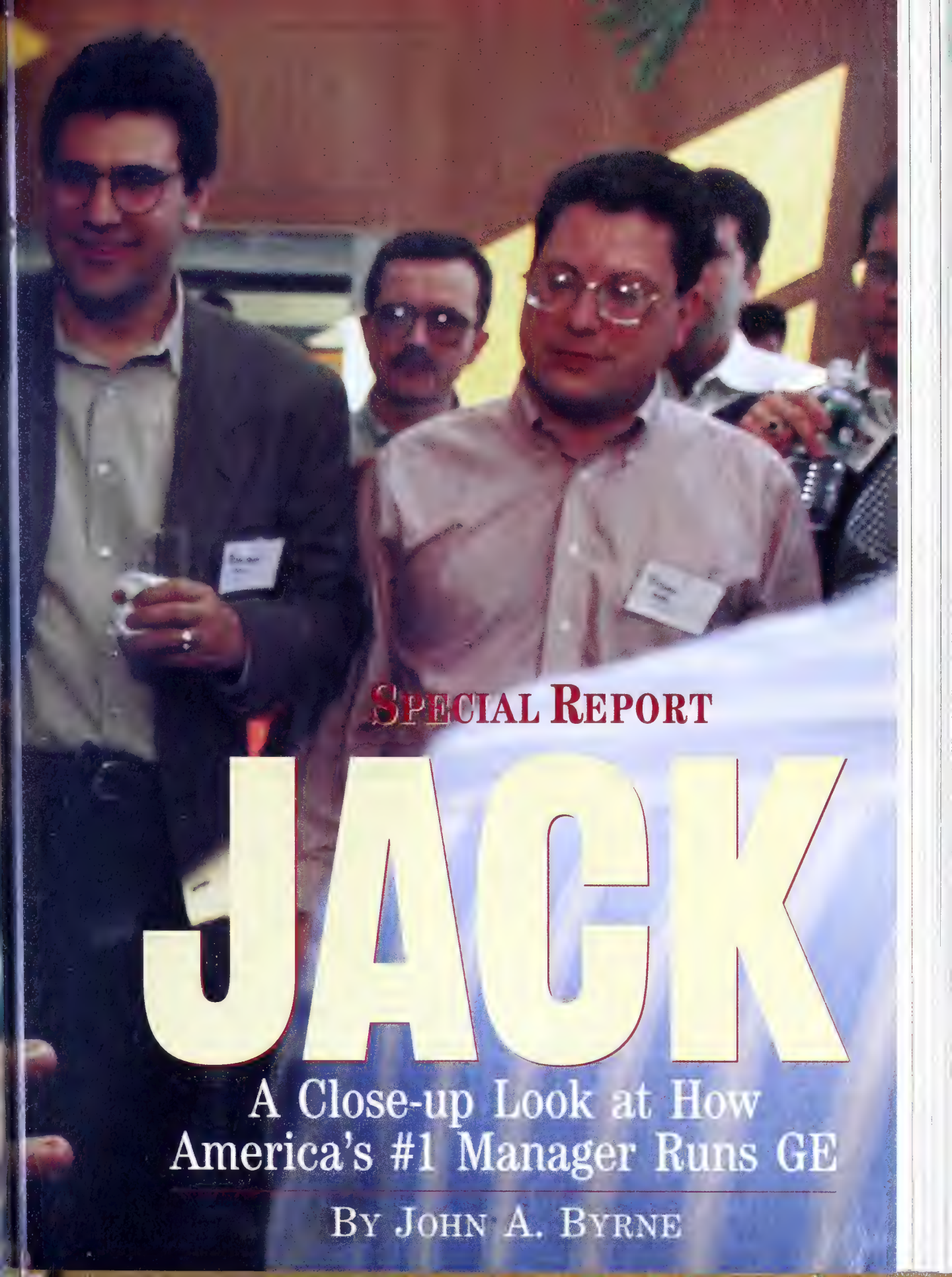


An IBM Company



taking a break Croton-on-Hudson, N.Y.

Between classes, Welch holds forth in an impromptu hallway gathering. The "students" are executives judged to be GE's best and brightest

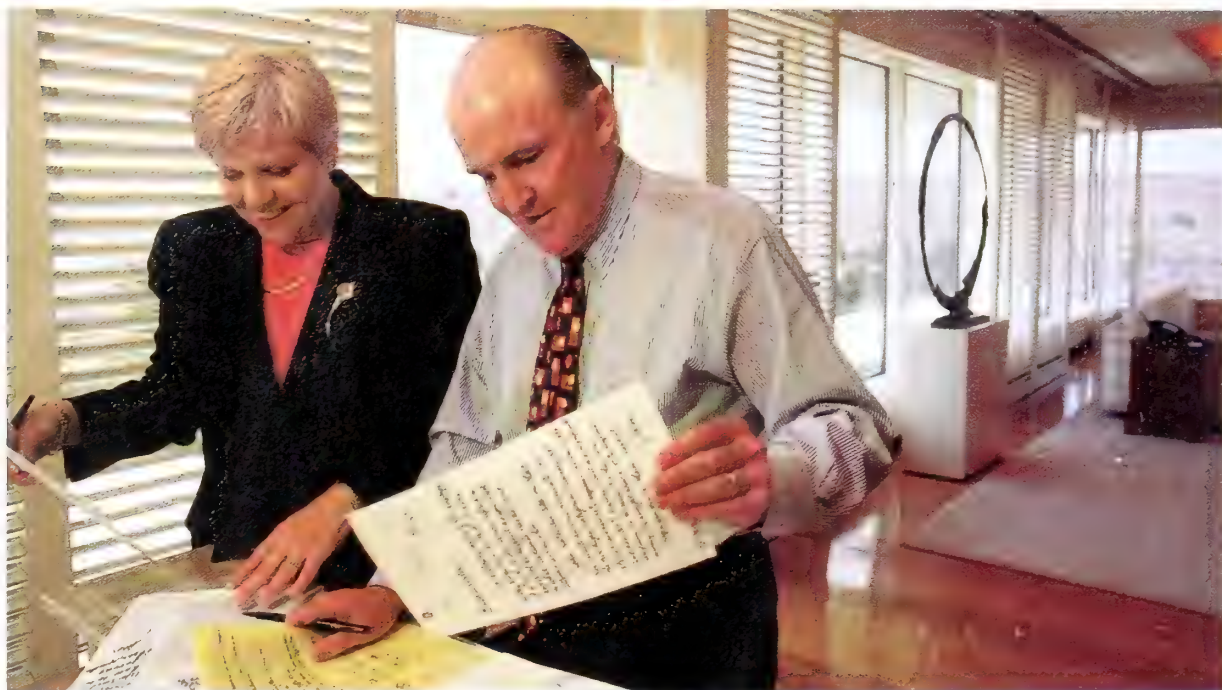


SPECIAL REPORT

JACK

A Close-up Look at How
America's #1 Manager Runs GE

BY JOHN A. BYRNE



Whisked by chopper from New York City, Jack Welch arrives early at the General Electric Co. training center at Croton-on-Hudson. He scoots down to The Pit—the well of a bright, multitiered lecture hall—peels off his blue suit jacket, and drapes it over one of the swivel seats.

This is face-to-face with Jack, not so much as the celebrated chairman and chief executive of GE, the company he has made the most valuable in the world, but rather as Professor Welch, coach and teacher to 71 high-potential managers attending a three-week development course.

The class sits transfixed as Welch's laser-blue eyes scan the auditorium. He hardly appears professorial. With his squat, muscular, five-foot, eight-inch frame, pasty complexion, and Boston accent, the 62-year-old balding man looks and sounds more like the guy behind the wheel of a bus on Beacon Hill. And he isn't there to deliver a monologue to a polite group.

For nearly four hours, he listens, lectures, cajoles, and questions. The managers push right back, too. They grouse that despite the rhetoric about managing for the long term at GE, they are under too much pressure to produce short-term



in touch Fairfield, Conn.

Welch starts the day with his executive assistant, Rosanne Badowski, going over the overnight faxes that have piled up from various corners of the world. Later in the morning, he holds the first of several daily powwows with key executives

results. They say that for all the Welch talk about "sharing best practices" and "boundaryless behavior," they are missing many opportunities to learn and sell services across the vast network of GE companies. Some worry that the company's gargantuan Six Sigma program, the largest quality initiative ever mounted in Corporate America, is allowing bureaucracy to creep back into GE.

Pacing the floor with a bottle of water in hand, Welch passionately attacks each question.

"You can't grow long-term if you can't eat short-term," he states flatly. "Anybody can manage short-term. Anybody can manage long. Balancing those two things is what management is."

"I think someone is smoking pot here," he quips about the complaint over the lack of synergy among GE units. "We've got enormous sharing going on."

As for the concern over Six Sigma, Welch retorts: "I don't give a damn if we get a little bureaucracy as long as we get

**SPECIAL
REPORT**

Jack



results. If it bothers you, yell at it. Kick it. Scream at it. Yell at it!"

In this classroom, where Welch has appeared more than 15 times in the past 17 years to engage some 15,000 GE managers and executives, something extraordinary happens. The legendary chairman of GE, the take-no-prisoners tough guy who gets results at any cost, becomes human. His slighter, a handicap that has bedeviled him since childhood, makes him oddly vulnerable. The students see all of Jack Welch: the management theorist, strategic thinker, business leader, and corporate icon who made it to the top despite his working-class background. No one leaves the room untouched. Leadership is an art, then surely Welch has proved himself a master painter. Few have personified corporate leadership more dramatically. Fewer still have so consistently delivered on the results of that leadership. For 17 years, while other companies and their chieftains tumbled like dominoes in the unforgiving global economy, Welch has led GE to one revenue and earnings record after another.

"The two greatest corporate leaders of this century are Al Sloan of General Motors and Jack Welch of GE," says Michael Tichy, a longtime GE observer and University of Michigan management professor. "And Welch would be the greater one because he set a new, contemporary paradigm for a corporation that is the model for the 21st century."

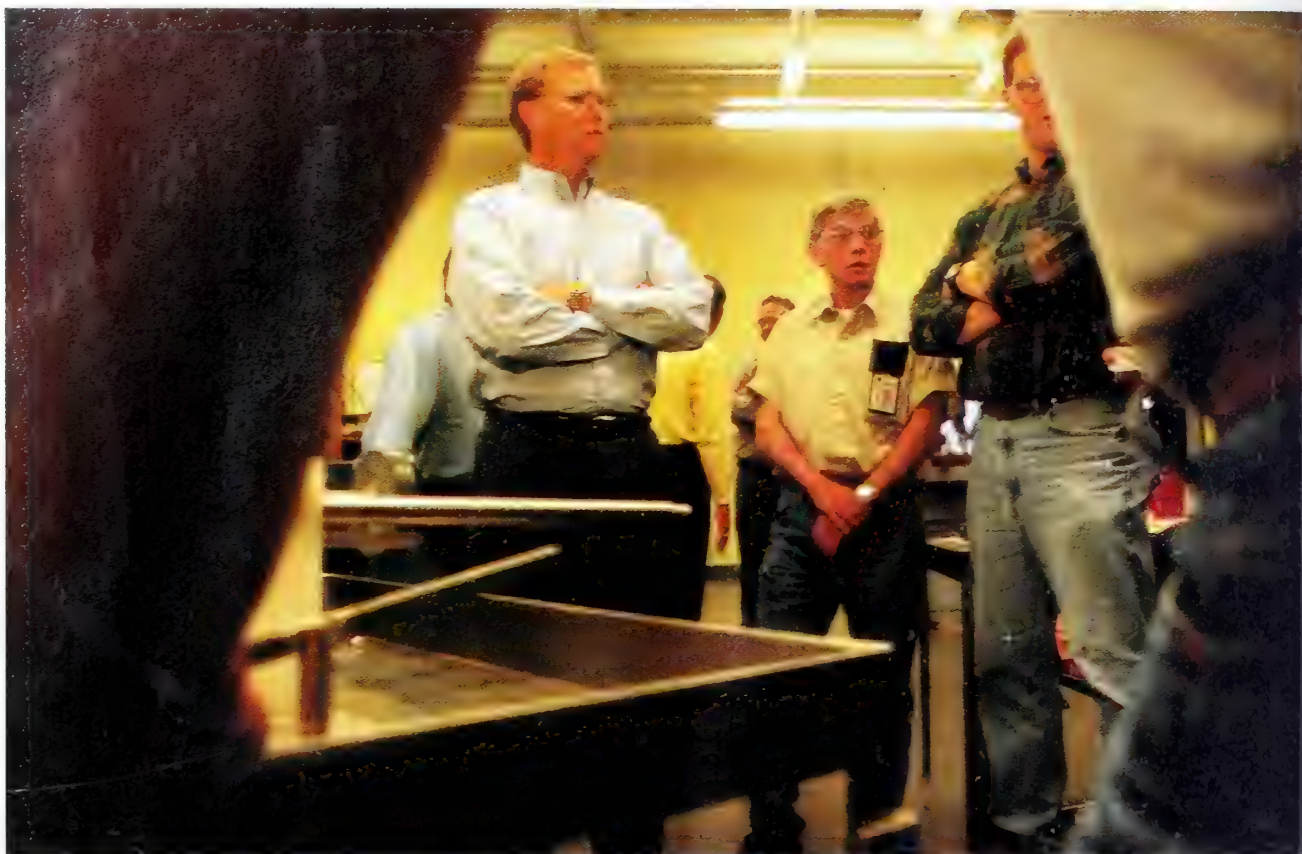
It is a model that has delivered extraordinary growth, increasing the market value of GE from just \$12 billion in 1981 to about \$280 billion today. No one, not Microsoft's William H.

teaching Croton-on-Hudson, N.Y.

Welch listens to a student presentation—he invites criticism of GE and his own performance—then takes to The Pit himself to hammer home a few points. The sessions last nearly four hours, and Welch has been at it for the past 17 years

Gates III or Intel's Andrew S. Grove, not Walt Disney's Michael D. Eisner or Berkshire Hathaway's Warren E. Buffett, not even the late Coca-Cola chieftain Roberto C. Goizueta or the late Wal-Mart founder Sam Walton has created more shareholder value than Jack Welch. So giddy are some Wall Street analysts at GE's prospects that they believe that when Welch leaves at the end of the year 2000, GE's stock could trade at \$150 to \$200 a share, up from \$82 now, and the company could be worth \$490 billion to \$650 billion. "This guy's legacy will be to create more shareholder value on the face of the planet than ever—forever," says Nicholas P. Heymann, a onetime GE auditor who follows the company for Prudential Securities.

Of course, GE's success is hardly Welch's alone. The company boasts what most headhunters believe to be the most talent-rich management bench in the world. Gary C. Wendt has led GE Capital Corp. to extraordinary heights, where it contributes nearly 40% of the company's total earnings. Robert C.



colleagues Worthington, Ohio

William Woodburn (above, left), as head of the industrial diamonds unit, had to eliminate one-third of his workforce. Another business chief, Lloyd Trotter (right, in Plainview, Conn.), gives his underlings the same sort of detailed critiques he gets from Welch

Wright has managed an astonishing turnaround at NBC, leading it to a fifth straight year of double-digit earnings gains in 1997 and a No. 1 position in prime-time ratings. Nor does Welch's magic work everywhere in GE. The huge appliance operation, for instance, saw operating earnings fall 39% last year, to \$458 million, largely due to restructuring charges. Nonetheless, Welch has led and managed GE to nearly unprecedented prosperity.

Much has been said and written about how Welch has transformed what was an old-line American industrial giant into a keenly competitive global growth engine, how he has astutely moved the once-Establishment maker of things into services. Welch has reshaped the company through more than 600 acquisitions and a forceful push abroad into newly emerging markets.

Less well understood, however, is how Jack Welch is able to wield so much influence and power over the most far-flung, complex organization in all of American business. Many managers struggle daily to lead and motivate mere handfuls of people. Many CEOs wrestle to squeeze just average performance from companies a fraction of GE's size. How does Welch, who sits atop a business empire with \$304 billion in as-



sets, \$89.3 billion in sales, and 276,000 employees scattered in more than 100 countries around the globe, do it?

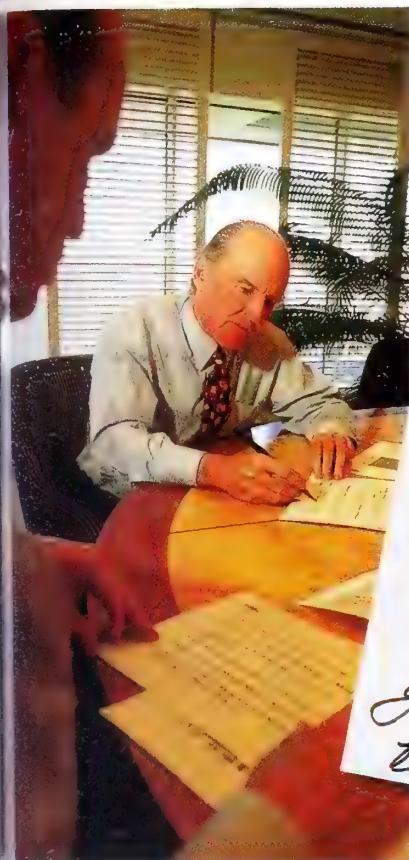
He does it through sheer force of personality, coupled with an unbridled passion for winning the game of business and a keen attention to details many chieftains would simply overlook.

He does it because he encourages near-brutal candor in his meetings he holds to guide the company through each work year. And he does it because, above all else, he's a fierce believer in the power of his people.

Welch's profound grasp on General Electric stems from knowing the company and those who work for it like the back of his hand. First off, there are the thousands of "students" he has encountered in his classes at the Croton-on-Hudson campus, which everyone at GE just calls Crotonville. Then there's the way he spends his time: More than half is devoted to "people" issues. But most important, he has created something unique at a big company: informality.

Welch likes to call General Electric the "grocery store." The metaphor, however quirky for such a colossus, allows Welch to mentally roll up his sleeves, slip into an apron, and get behind the counter. There, he can get to know every employee and serve every customer. "What's important at the grocery

“The story about GE that hasn't been told



JOHN F. WELCH
310 EASTON TURNPIKE
FAIRFIELD, CT 06424

6/3/96
Bill -
We like you for a lot
of reasons --- One of them is
that you are a very special person.
You proved it again this morning.
Good for you and your lucky
family. Make Donald a great businessman
Keep your priorities straight. JACK

less visible rhythms of the company—its meetings and review sessions—and how he uses them to great advantage.

When he became CEO, he inherited a series of obligatory corporate events that he has since transformed into meaningful levers of leadership. These get-togethers—from the meeting in early January with GE's top 500 executives in Boca Raton, Fla., to the monthly sessions in Croton-on-Hudson—allow him to set and abruptly change the corporation's agenda, to challenge and test the strategies and the people that populate each of GE's dozen divisions, and to make his formidable presence and opinions known to all.

Welch also understands better than most the value of surprise. Every week, there are unexpected visits to plants and offices, hurriedly scheduled luncheons with managers several layers below him, and countless handwritten notes to GE people that suddenly churn off their fax machines, revealing his bold yet neat handwriting. All of it is meant to lead, guide, and influence the behavior of a complex organization.

"We're pebbles in an ocean, but he knows about us," says Brian Nailor, a fortysomething marketing manager of industrial products who was at the Croton-on-Hudson session. "He's able to get people to give more of themselves because of who he is. He lives the American dream. He wasn't born with a silver spoon in his mouth. He got himself out of the pile. He didn't just show up."

THE PROMISE

John Francis Welch Jr. had worked for General Electric not much more than a year when in 1961 he abruptly quit his \$10,500 job as a junior engineer in Pittsfield, Mass. He felt stifled by the company's bureaucracy, underappreciated by his boss, and offended by the civil service-style \$1,000 raise he was given. Welch wanted out, and to get out he had accepted a job offer from International Minerals & Chemicals in Skokie, Ill.

But Reuben Gutoff, then a young executive a layer up from Welch, had other ideas. He had been mightily impressed by the young upstart and was shocked to hear of his impending departure and farewell party just two days away. Desperate to keep him, Gutoff coaxed Welch and his wife, Carolyn, out to dinner that night. For four straight hours at the Yellow Aster in Pittsfield, he made his pitch: Gutoff swore he would prevent Welch from being entangled in GE red tape and vowed to create for him a small-company environment with big-company resources. These were themes that would later dominate Welch's own thinking as CEO.

"Trust me," Gutoff remembers pleading. "As long as I am

is notes Fairfield, Conn.

Personal notes, accompanied by a phone call, are Welch's favorite form of communication. This one was sent to Bill Woodburn after he balked at a transfer—and promotion—because he didn't want to disrupt his daughter's schooling

is just as important in engines or medical systems," says Welch. "If the customer isn't satisfied, if the stuff is getting stuck, if the shelf isn't right, or if the offerings aren't right, it's the same thing. You manage it like a small organization. You don't get hung up on zeros."

You don't get hung up on formalities, either. If the hierarchy that Welch inherited, with its nine layers of management, hadn't been completely nuked, it has been severely damaged. Everyone, from secretaries to chauffeurs to factory workers, calls him Jack. Everyone can expect—at one time or another—to see him scurry down a aisle to pick through the merchandise on a bottom shelf or to reach into his pocket and surprise with an unexpected bonus. "The story about GE that hasn't been told is the value of an informal place," says Welch. "I think it's a big thought. I don't think people have ever figured out that being informal is a big deal."

making the company "informal" means violating the chain of command, communicating across layers, paying people as if they worked not for a big company but for a demanding entrepreneur where nearly everyone knows the boss. It has as much to do with Welch's charisma as it has to do with the

**SPECIAL
REPORT**

JACK

the value of an informal place"

WORK THE WEB.



THE CIO IS IN THE hot seat as the executive

committee drills one department head after another on escalating costs. How are you going to ¹(get the newly acquired subsidiary onto our e-mail system)? How are you going to ²(hold down your network administration head count) as you add hundreds of new users? How can you afford to ³(roll out new apps to the whole company)? It's like the Spanish Inquisition, but the food is worse. Her stomach rumbles from the dry turkey sandwich and yuppie water served at the start of the meeting as one committee member wakes up long enough to ask about the ⁴(Year 2000 problem) he saw on a CNN segment. "Not a problem, we have it covered," she replies. With an unforeseen compliment for completing the ⁵(global supplier extranet) project, she is excused. Exiting, she smiles at the beleaguered marketing director, who is about to be skewered because the company's celebrity pitchman has just appeared on the cover of a supermarket tabloid.

THE ⁶(BEST PARTS) OF HER MEETING WERE MADE POSSIBLE BY LOTUS.

¹Lotus Domino® and Messaging Migration Tools. ²Lotus Domino systems administration tools. ³Lotus eSuite DevPack™ Java™ applets.

⁴Lotus Notes® and Domino are Year 2000-ready. ⁵Lotus Domino Web Application Server. ⁶www.lotus.com/worktheweb.



An IBM Company

“The idea flow from the human spirit is absolute

here, you are going to get a shot to operate with the best of the big company and the worst part of it pushed aside.”

“Well, you are on trial,” retorted Welch.

“I’m glad to be on trial,” Gutoff said. “To try to keep you here is important.”

At daybreak, Welch gave him his answer. “It was one of my better marketing jobs in life,” recalls Gutoff. “But then he said to me—and this is vintage Jack—I’m still going to have the party because I like parties, and besides, I think they have some little presents for me.” Some 12 years later, Welch would audaciously write in his annual performance review that his long-term goal was to become CEO (page 104).

Gutoff’s story is cute, but it contains within it hints of Welch’s future management style. Indeed, the decades have failed to diminish for Welch the potency of combining big-company might with small-company nimbleness. If Gutoff, who remained Welch’s boss until 1973, could do that for Welch—and he did—then Welch could do that for others, many others. And so for much of his professional life, as he climbed the corporate totem, Welch has been preoccupied with harnessing the brute strength of big-company while ridding GE of big-company paralysis.

Just look at the Corporate Executive Council (CEC) sessions, where GE’s top 30 officers gather before the close of each financial quarter. The antithesis of the staid, staged off-site meeting, these sessions earn descriptions from executives like “food fights” and “free-for-alls.” They are where Welch collects unfiltered information, challenges and tests his top players, and makes sure that the organization’s triumphs and failures are openly shared. “I may be kidding myself,” says Welch, “but going to a CEC meeting for me is like going to a fraternity party and hanging around friends. When I tell my wife I can hardly wait to go, she says, ‘Well, why wouldn’t you? You hired them all!’ If you like business, sitting in that room with all these different businesses, all coming up with new ideas, is just a knockout.”

If Welch’s intellect and fervor made a strong impression on Gutoff, it is his near spiritual belief in the promise of the individual that made his early mentor really sit up and take notice. Welch believes that efficiencies in business are infinite, a faith grounded in the belief that there are no bounds to human creativity. “The idea flow from the human spirit is absolutely unlimited,” Welch declares. “All you have

to do is tap into that well. I don’t like to use the word efficiency. It’s creativity. It’s a belief that every person counts.”

It is not surprising, then, that Welch chose to embrace the ultimate expression of those beliefs—the largest corporate quality initiative ever undertaken. GE’s Six Sigma program

Welch is convinced, can add up to \$5 billion to GE’s earnings through the year 2000.

For years, Welch had been skeptical of the quality programs that were the rage in the 1980s. He felt that they were too heavy on slogans and too light on results. That was before he heard former GE Vice Chairman Lawrence A. Bossidy, a longtime friend, wax about the benefits he was reaping from a quality initiative he had launched at AlliedSignal Inc., where he has been since 1991. Bossidy had borrowed the Six Sigma program from Motorola Inc. and reported that the company was lowering costs, increasing productivity, and realizing more profits out of operations.

Welch invited Bossidy to share his story with GE’s top management at the June, 1995, CEC meeting. As it turned out, that was only one Welch ever missed—he was home recovering from open-heart surgery. However, Bossidy’s presentation won such rave reviews that when Welch returned to work in August, he agreed to pursue it.

A Six Sigma quality level generates fewer than 3.4 defects per million operations in a manufacturing or service process. GE is running at a Sigma level of three to four. The gap between that and the Six Sigma level is costing the company between \$8 billion to \$12 billion a year in inefficiency and lost productivity.

Still, it was no small decision to launch a quality initiative because it called for massive investment in training tens of thousands of employees in a disciplined methodology heavily laden with statistics to make the ideas take hold throughout General Electric would require the training of so-called master black belts, black belts, and green belts to impose the quality techniques on the organization.

Welch launched the effort in 1995 with 200 projects and intensive training programs, moved 3,000 projects and more training in 1996, and undertook 6,000 projects and still more training in 1997. So far, the initiative has been a stunning success, delivering far more benefits than first envisioned by Welch. Last year, Six Sigma delivered \$320 million in productivity gains and profits, more than doubling Welch’s original goal of \$150 million.

SPECIAL REPORT

Jack

How Welch Manages GE

Like the seasons in the year, there are rhythms and rituals to how Jack Welch manages the colossus that is General Electric. Besides his monthly teaching sessions at the Croton-on-Hudson training center, his date book is penciled in for:

EARLY JANUARY Sets agenda for the year with top 500 executives at a session in Boca Raton, Fla.

MARCH Tracks progress and swaps ideas with top 30 executives at quarterly Corporate Executive Council in Croton-on-Hudson.

APRIL/MAY Goes into the field to each of GE’s 12 businesses for full-day Session C meetings to personally review the performance and developmental plans for GE’s top 3,000 managers. Also sends out a survey to thousands of employees to find out what they’re thinking.

JUNE Quarterly CEC meeting at Croton-on-Hudson.

JUNE/JULY Spends full day with leadership of each of GE’s businesses to review their three-year strategic plans at headquarters in Fairfield.

SEPTEMBER Quarterly CEC meeting at Croton-on-Hudson.

OCTOBER Convenes top 140 executives in Croton-on-Hudson at corporate officers’ meeting to set the stage for the upcoming Boca meeting.

OCTOBER/NOVEMBER Invests full day with leadership of each of GE’s businesses to review budgets and follow up on human-resource reviews earlier in year.

DECEMBER Quarterly CEC meeting at Croton-on-Hudson.

nited. All you have to do is tap into that well"

This year, he expects GE to get about \$750 million in benefits. "Six Sigma has spread like wildfire across the company, and it is transforming everything we do," boasts Welch.

HOW AND TELL

The success of the program was evident this January at Crotonville, where Welch kicks off each year with a confab for the top 500 executives. Amid the ocean breezes and sunshine, it is Welch's opportunity to set the year's agenda and introduce the company's newest heroes. An invitation by Welch to speak in front of GE's most accomplished executives is like winning an Olympic medal in GE's intense locker-room culture. In the past January, 29 managers gained the privilege, most of whom spoke glowingly about their Six Sigma projects.

With Welch in the front row of the auditorium furiously taking notes on a yellow pad, the managers recounted how they used new ideas to squeeze still more profit out of the lean machine that is GE. It is not long after another explained how quality efforts cut costs and mistakes, ended productivity, led to greater market share, and eliminated the need for investment in new plant and equipment.

It is more than a bragging fest. The Six Sigma and-tell routine allows managers to learn from each other's experiences to exchange lessons with their counterparts in GE Capital. It's a place, Croton-on-Hudson, where "best practices" get transferred among GE's different businesses. In between sessions, managers who make bulbs or locomotives ideas with those who finance cars service credit-card accounts.

Welch seldom disappears early. One day, for example, he was up until 3 a.m. talking the breeze with 20 executives—mostly men and a few fast-rising women. But the event is Welch's wrap-up comments. He steps out onto the stage under a spotlight and a pair of video cameras. Although GE had just ended a record year with earnings up 13%, to more than \$1 billion, Welch wants more. Most CEOs would give a feel-good, congratulatory speech. But Welch dispenses with the kudos and warns the group that it will face the toughest years in a decade. It's not time to be complacent, he says, not with the Asian economic crisis, not with deflation in the air.

One unacceptable comment from a GE leader in '98 was "Prices are lower than we thought, and we couldn't get out fast enough to make our commitments." Unacceptable, he shouts, like a preacher. "Unacceptable behavior, because prices will be lower than you're planning, so you better start taking action this week."

Then, after asking every GE business to resubmit annual plans by the end of the month to account for deflation, the tumble out of him for how they can combat it. "Don't panic," he advises. "Increase inventory turns. Consolidate operations. Use intellectual capital to replace plant and equipment investment. Raise approvals for price decisions. It's harder to give away prices."

Welch then throws out yet another challenge. "The market

is rewarding you like Super Bowl winners or Olympic gold medalists," he says. "I know I have such athletes reporting to me. Can you put your team against my team? Are you proud of everyone who reports to you? If you aren't, you can't win. You can't win the game."

When the executives return to work on Friday morning, a videotape of Welch's talk is already on their desks along with a guide for how to use it with their own teams. Within one week, more than 750 videos in eight different languages, including Mandarin and Hungarian, are dispatched to GE locations around the world. Welch's words will be absorbed and reinforced by as many as 150,000 employees by month's end.

ROSES AND CHAMPAGNE

What happens in Boca, in the management development courses at Crotonville, or in the quarterly CEC sessions promptly spills down into the organization's guts, where people at every layer digest it. William Woodburn, a 47-year-old former McKinsey & Co. consultant who heads GE's industrial diamonds business in Worthington, Ohio, was one of this year's heroes at Boca. Since taking over the business four years ago, Woodburn had increased the operation's return on investment fourfold and halved the cost structure.

Employing Six Sigma ideas, he and his team have squeezed so much efficiency out of their existing facilities that they believe they have eliminated the need for all investment in plant and equipment for a decade. Some 300 other managers from GE have visited the plant to learn directly how Woodburn has done it so they, too, can transfer the ideas to their own operations.

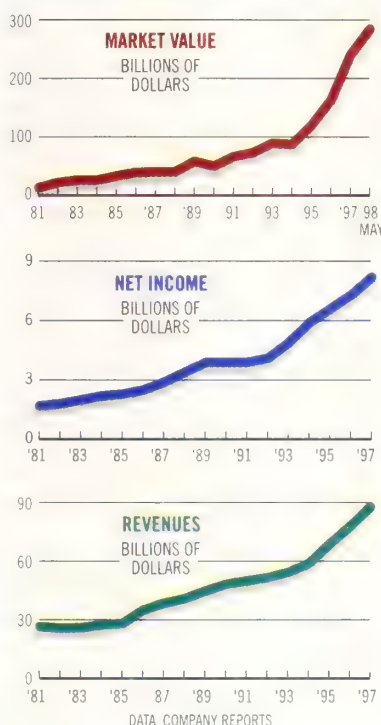
Like so many GE managers raised in Welch's intense hothouse, Woodburn's tough talk is pure Welch. To get the improvements, he has had to "take out" over a third of the workforce, including more than half the salaried staff. "We've been open and fair," he insists. "That doesn't mean being easy. You perform, or you're gone. There's tension in the rubber band."

On Monday, after returning from Boca, Woodburn gathers his 15 direct reports and uses Welch's video as the centerpiece for a discussion of what he learned in Florida. They then do the same with their staffs. On Wednesday, Woodburn uses the video again with 100 staffers in the plant. A week later, he goes through the process yet again with the region's "orphans"—GE staffers in the area who aren't in a major facility. "They see the tape. They hear the message. It gets people pumped up," he says.

Most great leaders, of course, are masters at communicating their desires. In his early years as chief executive, Welch discovered that you can't will things to happen, nor can you simply communicate with a few hundred people at the top and expect change to occur. So he doggedly repeats the key messages over and over again, reinforcing them at every opportunity.

Welch is uncommonly conscious of the signals and symbol-

GE under Jack Welch



“Crisis and Confidence”

The domino effect of the recent economic turmoil in Asia will test the management ability of executives in developing prudent and sustainable business strategies.

Some companies will emerge stronger and more competitive as a result

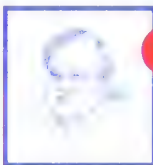
Building the New Asia”

Join these and other political and business leaders for the region's premier business dialogue:



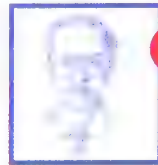
John Major

Former Prime Minister of the United Kingdom



P. Chidambaram

Former Minister of Finance, India



George Yeo

Minister for Information, the Arts & Second Minister for Trade & Industry, Singapore

**THE BUSINESS WEEK
8TH ANNUAL
ASIA LEADERSHIP FORUM
JUNE 23-25, 1998
FOUR SEASONS HOTEL
SINGAPORE**



Falling asset values, slowing consumption, and high interest rates are just some of the effects of the Asian stock and currency market turmoil. The financial shock and crisis has forced companies to adopt a sounder and more sustainable approach to their business strategy. At Business Week's 8th Annual Asia Leadership Forum, key government and business leaders will share their experience on managing through the current challenges. They will explore the forces driving the region's crisis and corporate transformations, analyze the newest challenges for continued reform and development, and share their visions of what lies ahead.

In association with

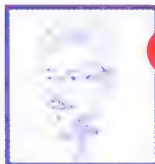
Singapore Economic Development Board
and
Singapore National Employers Federation

In Strategic Partnership with

IBM Corporation
Global Delivery Services of the
United States Postal Service

Najib Razak

Minister of Education,
Malaysia



Tanri Abeng

Minister of State for
State Owned
Enterprises, Indonesia

dnm

Strategies

BusinessWeek

Most Read. Best Read. Worldwide.

limited to Chairmen, Presidents and CEOs with few exceptions made.
Leadership Forum executive program is designed and managed by dnmStrategies.

ism of leadership. Rarely does he miss a chance to make his presence felt. His handwritten notes sent to everyone from direct reports to hourly workers possess enormous impact, too, because they are intimate and spontaneous. Moments after Welch lifts his black felt-tip pen from the chairman's stationery, they are sent via fax direct to the employee. Two days later, the original arrives in the mail.

They are written to inspire and motivate as often as to stir and demand action. Two years ago, for example, Woodburn turned down a promotion from Welch that would have required a transfer because he didn't want to move his teenage daughter out of school. Woodburn does not report directly to Welch but to Gary L. Rogers, CEO of GE Plastics. Yet Welch spoke to Woodburn about the decision on the telephone and within a day dashed off a personal note to him.

"Bill," wrote Welch, "we like you for a lot of reasons—one of them is that you are a very special person. You proved it again this morning. Good for you and your lucky family. Make Diamonds a great business and keep your priorities straight." To Woodburn, the note was an important gesture. "It showed me he cared about me not as a manager but as a person," he says. "That means a lot."

Not everyone sees that side of Welch. Some rank-and-file employees, for example, grumble about the unrelenting pressure on them to perform, and they summon up the moniker Neutron Jack. "No matter how many records are broken in productivity or profits, it's always 'What have you done for me lately?'" says Stephen Tormey, who negotiates the United Electrical Workers contract for some 6,000 GE employees. "The workers are considered lemons, and they are squeezed really dry."

Other critics have questioned whether the pressure Welch imposes leads some employees to cut corners, possibly contributing to some of the defense-contracting scandals that have plagued GE or the humiliating Kidder, Peabody & Co. bond-trading scheme of the early 1990s that generated bogus profits.

Few would dispute that Welch is seen as a demanding, no-nonsense executive who arouses a mixture of awe and fear. Aware of the daunting effect he can have on people, Welch works hard to counter that image. Not long ago, recalls human-relations chief William J. Conaty, one manager who had to make a presentation before Welch was so jittery he was shaking. It was the first time he had met Welch, who was swinging through St. Louis to meet with 10 different managers. "I'm so nervous," the manager confessed to Welch. "And my wife has told me she'll throw me out of the house if I can't get through this presentation."

At day's end, when Welch was back on the corporate plane, he immediately arranged for a dozen roses and a bottle of Dom Perignon to be delivered to the man's home. He then penned a note to the wife: "Your husband did a fantastic job today. We're sorry we put him and you through this for a couple of weeks."

There are no form letters from Welch, not to employees, managers, executives, or even directors in the GE boardroom. Every salary increase or decrease, every bonus, and every stock-option grant to Welch's 20 or so direct reports comes with a candid talk about expectations and performance. "There are carrots and sticks here, and he is extraordinarily good at applying both," says Gary M. Reiner, senior

SPECIAL REPORT

Jack

“Most of them wondered, ‘Is this guy a nut? Should he be arrested?’ It was difficult”

vice-president. "When he hands you a bonus or a stock option, he lets you know exactly what he wants in the coming year."

Rarely do surprises occur. Welch sets precise performance targets and monitors them throughout the year. And every one of Welch's direct reports—from his three vice-chairmen to each of the operating heads of GE's 12 businesses—also receives a handwritten, two-page evaluation of his performance at the end of every year. "I do evaluations on Sunday nights in my library at home," says Welch. "It gives me a chance to reflect on each business." Attached to the detailed notes are his jottings from a year earlier, with new comments written in red pencil in the margins: "Nice job." "Still needs work."

As if in lockstep, each business chieftain then emulates the behavior of his boss, and their reports, in turn, do the same. After Welch's Boca meeting in January, for instance, Lloyd C. Trotter, CEO of GE's electrical-distribution and -control business, had his own 2½ day leadership conference in Orlando with his top 250 people. And in February, after Welch gave him a bonus and reiterated the targets for the remainder of the year, Trotter then followed through in similar fashion with the 97 people in his organization who received cash bonuses. Other GE businesses follow the same format. As Thomas Dunham, who runs services in GE Medical Systems, puts it,

"Welch preaches it from the top, and people see it at the bottom. The result: Welch's leadership style is continually reinforced up and down the organization."

Above all, however, Welch skillfully uses rewards to drive behavior. Those rewards are not infrequently at GE, in part because of Welch's determination not to have the kind of standard \$100,000 raise that he got back in 1961. This day, Welch demands that rewards a leader disburses to people be highly differentiated—es-

pecially because GE is in so many different businesses. "I don't stand nondifferential stuff," he says. "We live in differentiation. You can't run these 12 businesses as if they were one institution."

Although GE set an overall 4% salary increase as a target last year, base salaries can rise by as much as 25% a year without a promotion. Cash bonuses can increase as much as 150% in a year, to between 20% and 70% of base pay. Stock options, once reserved for the most senior officers at GE, have been broadly expanded under Welch. Now, some 27,000 employees get them, nearly a third of GE's professional employees. More than 1,200 employees, including 800 below the level of senior management, have received stock options that are now worth over \$1 million.

Unlike many companies that hand out options as automatic annual grants, Welch doesn't want GE's program to be perceived as a "dental plan." So everyone who receives options doesn't necessarily get them every year. In fact, Welch insists that at least 25% of the employees receiving options should be getting them for the first time, and no more than 50% of the executives should get more than two grants in a row.

Welch, of course, along with every CEO of every major company in America, has been a major beneficiary of stock options. Last year alone, he exercised options that brought him \$31.8 million. Yet few things energize Welch as much as reviewing a list of GE employees who cash in their

CERTIFIED PRE-OWNED LEXUS



NOW LEXUS IS MILES AND MILES
AHEAD OF THE COMPETITION.
THE 3-YEAR/100,000-MILE WARRANTY.*



What better way to distance ourselves from the rest of the field? Introducing the groundbreaking Lexus of Warranties: 3 years and 100,000 total vehicle miles on every Certified Pre-Owned Lexus. It's like no other pre-owned automobile warranty around. And every Certified Pre-Owned Lexus comes with 24-hour Roadside Assistance, passes a rigorous 128-point inspection and is available with incredibly affordable financing. So while it's true that we're miles ahead of the competition, for you, owning a Lexus is closer than you think. Test-drive a Certified Pre-Owned Lexus today. Only at your Lexus dealer.



www.lexuscpo.com

* 1998 Lexus, a Division of Toyota Motor Sales, U.S.A., Inc. Lexus, renowned for its great reliability, secures children in front, seat and does not speed drive. Motor and 100,000 mile warranty coverage for Lexus CPO vehicles. See your CPO Lexus dealer for details on the limited warranty, or a table of rates, rates and Roadside Assistance.

wards. Combing through the names, Welch can hardly contain his enthusiasm—not for how well his company's stock has performed but for the wealth he has put into the hands of people whose names are unfamiliar to him. In the first quarter of this year alone, some 3,900 employees exercised 8.7 million options with a net value of \$520 million. "It means that everyone is getting the rewards, not just a few of us," he says. "That's a big deal. We're changing their game and their lives. They've got their kids' tuition or they've got a second house. That's a real kick. We've all got plenty. We're fat cats."

SURPRISE, SURPRISE

Welch's reach is long, frequent, and idiosyncratic. "It's part of living with Jack," a former General Electric executive says. "If you're doing well, you probably have more freedom than most CEOs of publicly traded companies. But the leash gets pulled very tightly when a unit is underperforming."

Truth is, it often gets pulled, period. Outside of the obvious—a \$200 million-plus acquisition, a new strategic initiative like Six Sigma, or the naming of a top executive—it's almost impossible to predict when Welch will swoop down. How does he decide what to involve himself in? "It's this," laughs Welch, putting his forefinger to his nose. "I smell it. I try to pick out what matters."

When Welch intervenes, he is rarely indecisive. "Welch will say yes. Welch will say no. But he never says maybe. A lot of CEOs do, and decisions lay there like three-legged horses that no one wants to shoot," says George Stalk Jr., a partner with Boston Consulting Group Inc. who has worked with GE. Late last year, for instance, GE Capital argued in favor of buying AT&T Universal Card, the credit-card operation of AT&T. Within 24 hours of the presentation, Welch vetoed the idea and sent a note to the GE Capital manager who had spent hundreds of hours studying it. Welch wanted her to know that despite his decision, he had been impressed with the quality of her analysis and her presentation.

Welch understands that an organization can be as impressionable as an individual. Every time he intervenes, the stories reverberate through the company. Barely four weeks before CNBC and Dow Jones & Co. formally launched their joint-venture cable program on Apr. 1, for example, Welch called up NBC head Robert C. Wright to tell him he wanted to examine the blueprint for the launch. Less than 24 hours later, a group of managers and programmers marched into Welch's New York office for a detailed presentation. "They had a month before the launch, and I think that's an important moment," says Welch. "That [request] will create a frenzy, and we'll have a discussion

SPECIAL REPORT

Jack

about it. Not that I'll add a helluva lot of value, but I'll be there banging away at it," he adds, clearly satisfied that the hustle he provoked will give the project a renewed intensity that can only favor its success.

Or consider how Welch became involved in the cruciating details of the tubes that go into GE's X-ray and scan machines. Five years ago, Welch, who spends 15% to 20% of his time interacting with customers, heard so many gripes about the poor quality of the tubes. The product was averaging little more than 25,000 scans, less than half what competing tubes were getting.

To fix the problem, Welch reached two levels down into the organization in mid-1993 and summoned to corporate headquarters Marc Onetto, 48, who had been general manager of service and maintenance in Europe. His marching orders, recalls Onetto, were simple and direct: "Fix it," Welch commanded. "I want 100,000 scans out of my tubes!"

For the next four years, Onetto faxed weekly reports direct to Welch, detailing his progress. Back would come notes from Welch every three to four weeks. Some would nag him to growl for greater progress; others would flatter and cajole. "You're not going fast enough," Welch scrawled at one point.

The man who would be chief

In 1973, when Welch was a divisional vice-president, the review of his performance by early mentor Reuben Guttoff audaciously listed his ambition to become chief executive

GENERAL ELECTRIC

EVALUATION AND DEVELOPMENT SUMMARY

(This side to be completed by employee)

Strictly Private

NAME WELCH John F SOCIAL SECURITY NO. _____
(last) (first) (initial)

I. CAREER INTERESTS (show your specific preferences and alternatives including position title, type business, service industry, etc. plus desired timing)

B. LONGER RANGE

Chief Executive Officer of General Electric Company.

B. QUALIFICATIONS (Describe technical, interpersonal, managerial qualifications, etc.)

1. STRENGTHS

Technically very strong, has entrepreneurial drive, is bright & quick. Sets high standards for himself and demands same of people who work for him. Extremely imaginative and creative. Likes to operate "outside the dots", but at the same time very "maze bright". Jack is profit & results oriented - disdains diversions that detract from business accomplishments. Has great marketing skills.

2. DEVELOPMENT NEEDS

Continue to broaden (1) exposure to Company, and (2) ability to handle socio-political relationships.

IV. EVALUATION OF PERFORMANCE AND QUALIFICATIONS

A. PERFORMANCE (Describe individual's overall performance on present assignment in terms of major objectives, special accomplishments. Indicate performance trend.)

1972 Performance Screen for Incentive Compensation (attached) lists key objectives and achievement highlights. Overall Jack's 1972 performance was outstanding. He managed a portfolio of diverse businesses to achieve exceptional short-term profit results while simultaneously investing aggressively for future growth. Another result: Clearly developed a runner-up for his job in event of promotion (Walt Rost).

DATA: REUBEN GUTTOFF, STRATEGY ASSOCIATES

he experience astonished
tto, a Frenchman who had
ed GE in early 1988. "I was
running a little business
about \$450 million in rev-
es, and I was so amazed that
could find the time to read
reports and then even send
back notes," he says. Since
t, Onetto's team has creat-
versions of the tubes that
age between 150,000 and
000 scans. The improve-
ts added about \$14 million
productivity benefits to the
sion last year. "It's a dou-
edged sword to be under
s detailed look," says Onet-
t. If you do well, it's great. If
don't, it's bad news. Jack is
famous for patience—which
is an understatement."

TURKEYS

While analysts on Wall Street or GE's own investors view Welch's likely legacy as creating the world's most valuable company in stock market terms, Welch himself sees things differently. The man who spends more than 50% of his time on people issues considers his greatest achievement the finding and feeding of talent. "This place runs by its great people," Welch says. "The biggest accomplishment I've had is to find great people. An army of them. They are all better than most CEOs. They are big hitters, and they seem to thrive here." He believes he has to know people well enough to trust them and their judgments. "I don't know how to build an air engine," he says. "I don't know what should run on NBC at 11 p.m. on Thursday nights. We're in the cat-and-dog in-house business in England. I don't really want to be in that mess, but the guy who brought me that idea wanted to be there, and I trust him. He'll take it and make it work." Welch knows by sight the names and responsibilities of at least 100 of the top 1,000 people at GE. "He knows their names. He knows what they do. That's an incredible reinforcement to the individual that he or she counts," says Dunham of GE's Medical Systems business.

Welch is a premium on people who knows no bounds. Three years ago, in the transportation business, struggling to attract topnotch talent at its headquarters in Erie, Pa., began recruiting junior military officers. So successful were they that other GE units did the same. When GE had 80, Welch asked all of them to come to the field, where he spent an entire day with them. Impressed by the quality and track record of the recruits, he insisted the company hire 200 junior military officers annually. More than three years later, GE now has 711 of them on the payroll, many of whom have already gained significant promotions.

While many companies profess to run as meritocracies, in reality they are often conscious of both class and credentials. At GE, however, many of the company's most successful executives, like Welch, the first in their families to earn college degrees and rarely boast Ivy League diplomas. They are proud without regard to titles or seniority. When it came time to pick a new CFO, for instance—a key position with some 10 finance people reporting to it—Welch passed over several candidates in line for the job in favor of then 38-year-old Dennis J. Dammerman two layers down in the ranks because he was impressed with how he had handled other tough assign-

“The biggest accomplishment I’ve had is to find great people. An army of them. They are all better than most CEOs. They are big hitters, and they seem to thrive here”

ments. "What counts is what you deliver," insists Welch.

That message has been consistently hammered home by Welch since he became CEO in 1981. Nowhere does Welch put greater focus on people and performance than in the company's annual Session C reviews that begin in April and last through May. With three of his senior executives, Welch travels into the field to each of his 12 businesses to review the progress of the company's top 3,000 executives and keeps closest tabs on the upper 500.

Typically, Session C reviews begin at 8 a.m. and end at 10 p.m., with the CEO of the business and his senior human-resources executive. These are

intensive reviews that force those running the units to identify their future leaders, make bets on early-career "stretch" assignments, develop succession plans for all key jobs, and decide which high-potential executives should be sent to Croton-Hudson for leadership training.

How can Welch possibly weigh in with intelligent comments about so many diverse managers and executives? Largely, it's because he has met so many of them. In an average year, Welch directly meets and interacts with several thousand GE employees. At the session, moreover, he sits behind a briefing book that contains every employee's assessment of their strengths and weaknesses, developmental needs, and short- and long-term goals, together with their supervisor's analysis. Photos of the employees being tracked and reviewed accompany the package.

At lunch, the officers of every business are expected to bring the women and minority managers they are currently mentoring so Welch can get to know them better. Moving women and minorities through the pipeline is a priority because there are so few in GE's ranks. No women occupy the top 20 jobs at the company, and of the 120 highest-ranking executives in operating management, only four are women. While GE's macho culture may be off-putting to some women, Welch insists that their poor representation reflects the industries in which GE has traditionally competed. Adds a high-ranking female executive who recently left GE: "It's the pipeline issue. I didn't see anything that discouraged women or put up real or perceived cultural barriers."

Throughout the day, Welch will openly challenge upcoming promotions, assignments, and succession plans. "Guys will pick guys, and I'll have an argument about it, and finally I'll say, 'This is your call,'" says Welch. "'You want him? You can have him. But this is what I think about him...' If I am right, they'll have to do something. If they are right, God bless them."

In every potential leader, Welch is looking for what he now calls "E to the fourth power." That's his term for people who have enormous personal energy, the ability to motivate and energize others, "edge"—the GE code word for being instinctively competitive—and the skill to execute on those attributes. He's also pressuring leaders to ditch their C players. "He doesn't suffer fools gladly, and he doesn't have a high tolerance for mediocrity, that's for sure," says director Gertrude G. Michelson.

Some critics say that Welch can even be mean-spirited

SPECIAL REPORT

Jack

and petty, rushing to quick judgments about people on the scantest of experience. "He'll go to a meeting and someone will be intimidated by his presence and won't say anything," says a former GE executive. "He'll turn around and tell everyone after the meeting that the guy is a dud. He'll have to be convinced he's not." Yet, the executive says, the good news is that Welch can be convinced.

THE COFFEE POT

Welch didn't always get rave reviews. When he first came to The Pit shortly after succeeding the statesmanlike Reginald Jones, Welch stared into a sea of scornful faces. They could not fathom why a stable and highly profitable company should ditch businesses and one out of four workers to comply with Welch's dictum that GE be No. 1 or No. 2 in every business.

"I went there when 60% of the audience would sneer at me," recalls Welch of the days when he was in the midst of massive layoffs. "Most of them wondered, 'Is this guy a nut? Should he be arrested?' It was difficult."

Yet, if Welch has regrets, it is that he moved too slowly at first. "What I did then compared to what's been done in the revolutions at IBM, GM, and other places was toy stuff," he says. He remembers seeing GE skewered in a 1981 *60 Minutes* segment for closing a steam iron plant employing 650 workers in Ontario, Calif. "American society accepts competitiveness today... It's getting out of the old and getting into the new. That's the game."

The rules for this game have been honed and taught at Crotonville, ironically a place that Welch never came to as a student. When he bolted up the corporate ladder, Crotonville was hardly a mandatory stop. It was, in Welch's words, more of a "consolation prize" for many who failed to get promotions.

After becoming CEO, however, Welch made the place a central part of his mission to transform GE into an informal learning organization. Its courses were directly linked to the strategic priorities of the company, and executives went there to work on issues that perplexed them back at the office. "Jack calls Crotonville the coffee pot," says Steven Kerr, vice-president of leadership development. "It doesn't just percolate. It gives off aromas that draw people from all over the company."

Welch's frequent teaching assignments at Croton-on-Hudson are clearly one of the favorite parts of his job. He typically appears at these three-week courses toward the end, after an array of other GE executives have psyched the group up to ask Welch tough questions. His appearance is unscripted, without notes. If there aren't a dozen hands up wanting to take a swat at Welch at any time, the CEO would consider the group a dull bunch, a group of turkeys.

Nearly four hours after this session at Croton-on-Hudson began, when the class disbands at 5 p.m., Welch doesn't just head for the chopper on the nearby pad. Instead, as he always does, he invites the class to have a drink with him at

the White House, the spacious rec center on campus. There, at the bar, with a Buckler nonalcoholic beer bottle in hand, Welch is just one of the guys. "I was expecting this halo above him, this deity," says Robert Callahan, who has been with GE Plastics for six years. "It was like talking to your grandfather. You're comfortable around him. You don't expect him to be down-to-earth."

END GAME

Back in his office at 30 Rockefeller Plaza, Welch can't contain his excitement. "Ro!" he shrieks through a sliding door to his secretary, Rosanne Badowski. "Bring it in! You know what it is. Bring it in!" he shouts. "This is the most exciting thing that has ever happened to me."

A few moments pass and the sliding door disappears into a wall with a whoosh. His secretary gives Welch a scorecard from his latest golf game. He hides the results with his hand and jumps into the story. "I'm playing golf, O.K.?" he says. "And the players are Jack, Matt Lauer, Bob Wright, Greg Kinnear, Norman, and Wayne Huizenga at Wayne's course. Greg played terrific. He shoots a 70, two under par."

Welch's hand slowly slides down the scorecard to reveal Norman's name and score. "Bob has a 96. Wayne has a 98. Matt has a 78. And Jack has a 69 and beats Greg Norman."

declares Welch, finally revealing his total score. "Isn't that the greatest thing? Is that a turn of phrase? That's everything! The rest of it is all nonsense. This is the best stuff. If you are going to shoot a 69, what better moment?"

Indeed. The Irish-Catholic who learned to play golf as a 12-year-old caddy beat a champion. "I had my preference," Welch says. "I would have loved to have been a great professional golfer. Oh, but if you've got to pick a job in business, this is the best job ever created. Every day is a new event. You're not dealing with products as much here as you are dealing with people. It's a kick."

In 2½ years, Welch will lose a kick when he steps down as chairman and CEO of General Electric after nearly 20 years at the top. He reaches the mandatory retirement age of 65. No one, not even Welch, knows who his successor will be. Nonetheless, Welch's mentorship style has become so embedded in the organization that

his retirement is unlikely to erode his impact.

As for what Welch will do next, he doesn't hesitate to answer the question. While he will consider teaching an occasional business course, he has no intention of amassing corporate directorships. Instead, he intends to play golf with his second wife, Jane. Clearly, he will miss the job, the adrenaline and the fun. "A lot," he says, "a lot. But succession is part of the rebirth of an organization. I'm not going to be around. I am not going to be near the board. It's a free swing for a new team." But can anyone ever run this company with the power and influence of a Jack Welch? Don't count on it.

Special Report continues on page 11



“ Succession is part of the rebirth of an organization.... It's a free swing for a new team ”



If something out of the blue happened to your house, could you find a contractor to fix it? An Allstate Agent could help you. Plus Allstate offers a three-year workmanship guarantee. **Being in good hands is the only place to be.™**



Allstate
You're in good hands.



The CEO speaks; the CIO cringes.

3Com builds networks powerful enough to handle even the most daunting request. Intelligent networks



"Let's hold the next global meeting via our Intranet."

That means voice, data, even video.

(On 2,300 desktops in 90 days.)

Can you do the impossible again?

Can your network?



More connected.™

Video-to-the-desktop — run smoothly. All from the company that's connected more businesses in more than any other. For the latest news about converged networks, visit www.3com.com/moreconnected

'I HAD A PAL IN MY MOM'

It had taken him 21 hard years and a bruising succession battle to make it to the top. But finally, in 1981, Jack Welch achieved his greatest ambition. At 45, the long-shot candidate became the youngest chief executive in General Electric Co.'s history. The climax to his ascension was his first shareholders' meeting in Phoenix. After holding forth for two hours, the triumphant Welch walked offstage, his blue eyes moist with tears. "I wish my mother had been here," he whispered to GE director and friend Silas S. Cathcart.

Jack Welch, sentimental? In time, he became known as Neutron Jack, the man who cut GE's workforce by more than 100,000 employees in his first five years as CEO. But that moniker suggested a one-dimensional character, failing to shed light on a far more complex and private individual. Welch has always been more: a dutiful son who worshiped an adoring Irish mother, a loyal friend who still returns to Salem, Mass., for high school reunions, and a witty, self-deprecating husband and father of four.

A typical remark from those who know Welch well is how little he has changed since boyhood, when pals called him Jackie. GE-watchers often applaud Welch by saying he is one of the few corporate leaders to reinvent himself through his 17-year reign at the top. They point to the metamorphosis of his public image from remorseless cost-cutter to a business icon and champion of "soft" people values. Truth is, Welch hasn't changed at all.

Growing up in Salem, Welch was as he is today: unpretentious, demanding, and feisty, quick to use obscene language when his temper flares, but also

remarkably compassionate and caring. His decisions to lay off employees to sharpen GE's competitiveness, say insiders, were painful and anguished.

His force of will in the game of business was just as strong in the scrappy games of hockey and baseball he played as a teenager. "Most people change when they go to work for a big company," says George W. Ryan, a longtime friend and high-school buddy. "They are

forced to conform to survive. He forced the company to change.

His mother, Grace, whom he resembles, gave him the confidence to refuse to conform. Welch learned from her—including pure persistence—took 16 years before she and her husband, John Sr., saw the birth of their son on Nov. 19, 1935, in Peabody, Mass. Sr., a Boston & Maine train conductor and union leader, worked long hours, often leaving for work at 7:30 a.m. and not returning until 7:30 at night.

Welch and his mother would drive to the train station together, sit in the car in the dark, and talk while waiting for his dad to arrive. He convinced him that he didn't speak with a stutter, even though he did. She told him to aim for the sky. She took him to Fenway Park and encouraged him to cultivate his near life-long passion for the Boston Red Sox. She nurtured his competitive instincts in games of gin rummy around the kitchen table. And when he beat him, Welch would slam the cards on the table and shout "Gin!" in the loudest voice possible. "I had a great mom, you know," he says. "We had a great relationship. It was a powerful, un-



the early years

Jack as a young boy (upper left), at his college graduation in '57, with mother Grace before his junior prom, playing baseball in high school, and Jack's mother and father, John Sr., around 1920

wonderful, reinforcing experience.

Young Jack, described in his school yearbook as a boy with wit, a wise look, and an answer ready," won a reputation as a popular student but also a star eager to pull off one caper after another. For the Senior Revue at High School, Welch and his friends were wheeled onstage in baby

diapers and combat boots to Face. shared his achievements in ol, where Jack was co-captain of team and treasurer of the ss. She encouraged gh the University of setts and the Univer- nois. And when he s PhD in chemical en- from Illinois, she newspaper in Salem to report ent. "She was putting stuff in paper like: 'Dr. Welch Receives'" Welch remembers with a e was impossible."

ied in 1966, shortly after e her \$1,000 from the bonus a time when he was making* more than \$20,000 a year. She money to go to Florida for the d that was where she passed e was so excited to get some- me, so excited that I did embers Welch. "The only ... all the things I could do or. That's the tragic thing." day, Welch considers his assing long before he gained aim or financial success to be greatest disappointment of e second might be the end of marriage, to Carolyn B. Os- n he had met at a Lenten e University of Illinois. They micably after 28 years, in ds say the Welches simply selves on different paths. ng four children—Katherine, A, and Mark—Carolyn re- school for a law degree.

E. Welch met second wife ey, a mergers-and-acquisi- er at Shearman & Sterling, date arranged by Walter B. ngtime head of Citicorp who GE director, and wife Kathy. et for dinner at Tino's, an aurant in New York, with ane leaving the Wristons at l going on to close the bar at nbourg at 4 a.m.

. second date over burgers at ollensky's in New York— d wearing leather jackets ans—to make it stick. Some later, in April, 1989, they ne quit her position as an o make Welch her full-time and frequently travels with Welch, Alabama-born Beasley, t, tough, witty, and unpre- ie only daughter of a farmer lteacher, she grew up a i family with three brothers. great sparring partner for lso has adapted to his pas-

sions, skiing and golf, while encouraging him to learn about hers. "His wife promised to learn to ski if he would go to the opera," says Gertrude G. Michelson, a GE director and friend. "I can tell you she has skied more than he has gone to the opera."

SPECIAL REPORT

Jack

The private Welch is a sports fanatic, a movie buff, and a media junkie engaged equally by scuttlebutt and facts. After a vigorous 45-minute workout in his home at 5:30 a.m., he begins every weekday by scanning the "What's News" column of *The Wall Street Journal*, then glancing at the index in the B section for GE stories. Immediately afterward, he goes to

ly sits in front of the TV, watching MSNBC or CNBC while going through a foot-high pile of memos and reports. His favorite shows are NBC's *Frasier* and now off-the-air *Seinfeld*, though he has a formidable appetite for watching sports on TV, even—to the amazement of his wife—bowling.

Above all, though, Welch is a golf nut. He learned the game as a 12-year-old caddy who studied the swing and stance of the best golfers. Welch also helped teach Jane, who had never played golf before meeting him. She has now won two club championships in a row on Nantucket, where the Welches maintain a summer home.



his favorite newspaper, the *New York Post*. An incorrigible gossip himself, Welch says he typically finds "at least five good stories there," especially on media and entertainment.

But there's no escaping GE business, even on vacations and weekends, when there are almost always faxes, telephone calls, and a stack of paperwork to mull over. In the evenings, he usual-

family life

With second wife, Jane, a former attorney at Shearman & Sterling, on a golfing vacation in Ireland, and with Jack, one of three grandchildren

The pair also purchased a house across the street from the Country Club of Fairfield. Meanwhile, Welch has lowered his handicap to five, though some partners say it's more like three.

He attacks golf as he does everything: with vigor and abandon. On a recent three-day weekend, Welch and his wife squeezed in 90 holes of golf at Augusta, where he is a member. And on a golf trip to Ireland with three other couples the summer after his open-heart surgery in 1995, he played six courses in six days. That's Welch to a tee—always seeking a game, eager to best the competition. Just the can-do attitude to make a mother proud.

By John A. Byrne in New York

TISCH: T

Loews' chief insists that short-selling, which has been disastrous so far, will be vindicated in the end

The last great bear? At a time when most of them are in hibernation, Laurence A. Tisch, chairman and CEO of Loews Corp., insists that the market is greatly undervalued. "People don't realize this is a unique period in American financial history.... We've gotten to such an extreme in the market that a correction would be of such major proportion it could do economic harm to the country," Tisch says. "That's the sad part."

Most professional investors share Tisch's longtime dark view of the market. But few appreciate the extent to which he has been putting his money where his mouth is. Regarded as a conservative value player for decades, Tisch has been pursuing an extraordinarily daring strategy for over a year. Loews, a holding company of which the Tisch family owns about a third of the stock, has been using company money to make huge bets against the market. They include shorting equity, shorting futures contracts on the Standard & Poor's 500-stock index, and buying put options on the S&P.

So far, his timing has been lousy. In 1997, these bets that the market would fall cost Loews \$917.7 million. Loews' 1997 pretax earnings of \$1.59 billion were 40% lower as a result. The first quarter of 1998 was even worse, with trading losses totaling some \$533.4 million, basically wiping out the quarter's earnings. Overall, the past five quarters have produced close to \$1.5 billion in trading losses. And the bad news is continuing. The latest Securities & Exchange Commission filing for the quarter ending Mar. 31 says: "The company continues to maintain these positions and has experienced additional significant losses."

Loews' annual 10-k filing estimates that if a variety of adverse events occurred, such as a 25% rise in the market, Loews could lose as much as

LOUSY TIMING

In the past five quarters, Tisch's bets that the market would fall produced \$1.5 billion in trading losses



ESTIMATE BEAR

from short-selling. It appears Tisch, in effect, has been been making ever larger bets as the market rises. Trading losses were only \$1 million in 1995 and \$145.3 million in 1996.

Don't get me wrong. It's not pleasant to be not happy about [the losses]," says Tisch. "Look, I've been wrong so often, but he defends his shorting strategy as a proper activity for a public company with major securities positions. "In the long run, I think we are doing the prudent thing."

LOSSES. So what gives Tisch the courage to continue along this bloody path? After weathering several market downturns, Loews' CEO insists that the company's current valuations are far better than the extremes reached before the start of 1999. Tisch points out that the S&P 500 index trades at a multiple of 70 times earnings, when the normal price-earnings ratio, according to him, should be about 18 times.

Tisch is convinced that the corporate accounting excesses of the 1990s will finally come home to roost. He questions the quality of earnings, pointing to such things as the overuse of stock options, the wholesale granting of stock options, and the very generous accounting to inflate earnings. Tisch has made money shorting the market before—in the 1987 downturn during Japan's 1989 decline. He says what individual stocks Loews is shorting. But he does say that his repositioning strategy has been slightly more conservative. Instead of mainly shorting S&P futures contract, he is also buying put options on the S&P. That is still a hedge in a market downturn, but it is less risk if the market should tank. The loss on buying puts is limited to the amount paid for the put, as shorting S&P futures entails unlimited risks.

What if the market tanks this time? Tisch is expecting? Tisch says if the market drops by 20%, he will more than make up the losses of the past five quarters. A 30% or 40% decline would make the company a couple of billions of dollars richer, he says.

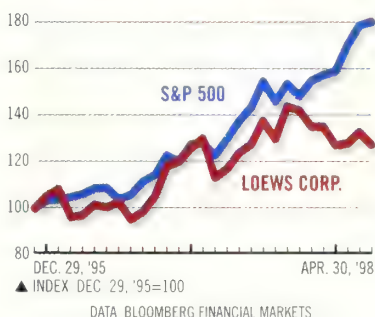
Tisch has plenty of defenders. War-

ren E. Buffett, chief of Omaha's Berkshire Hathaway Inc., is one. "While I don't try to time the market much myself," says Buffett, an old friend of Tisch, "I hope Loews shareholders behave in the same way that I hope Berkshire Hathaway shareholders behave—and that is you look at a batting average over time...all nine innings."

Paul Spraos, publisher of *Swaps Monitor*, which covers derivative trading, says Loews' strategy of shorting the market is relatively rare among large corporations. "Obviously their strategy wasn't the greatest so far," says Spraos. "But at least they've done what they should have in telling shareholders what they were up to.... They were actually very informative in their annual report."

Others are less kind. Says one hedge-

LOEWS' STOCK SAGS...



...AND TRADING LOSSES ARE HITTING THE BOTTOM LINE

1997 MILLIONS OF DOLLARS	
PRETAX INCOME (Before results from investments and trading)*	\$1,593.2
+ NONTRADING GAINS	+ 679.8
TOTAL	2,273.0
- TRADING LOSSES	917.7
PRETAX INCOME (After trading and nontrading results)	\$1,355.3
TRADING LOSSES REDUCED TOTAL INCOME BY	40.3%

*Excludes tobacco settlement

DATA: LOEWS, BUSINESS WEEK

fund manager: "I would argue that if he wants to be shorting the market, he probably shouldn't be a public company. I don't think that is the kind of risk most shareholders want you to take."

Loews' disparate collection of businesses is as rare as his trading practices. The holding company, with \$20 billion in revenues, has an 84% stake in CNA Insurance, a 50% stake in Diamond Offshore Drilling, 98% of Bulova Watch, and 100% of Loews Hotels and Lorillard Tobacco. Over the past 15 months, the paper value of Loews' stakes in Diamond, CNA, and other equity investments rose close to \$4 billion. In CNA's case, much of the stock appreciation was the result of another controversial move: buying bonds in 1994 when the bond market crashed, which nearly doubled CNA's book value.

Tisch is a confirmed bottom-fisher. His moves have usually been controversial but ultimately very lucrative. For instance, when Tisch started buying offshore-drilling rigs from virtually bankrupt companies in the late 1980s, the industry was so out of favor that assets were selling at close to scrap-metal prices. Loews' interest in Diamond is now worth about \$3.5 billion.

CLOUD OF SMOKE. But Tisch also has been accused of selling things too early, such as bank stocks in the 1990s, and of missing the bull market as a member of New York University's investment committee, which was conservatively invested in fixed-income securities.

Despite the mammoth increase in the market value of Loews' two public companies, Loews' shares still only trade at a multiple of nine times projected earnings. Over a 25-year period Loews' shares have doubled the S&P. But largely due to the cloud of tobacco hanging over its stock, Loews in recent years has underperformed the S&P (chart).

For some, Loews may be attractive precisely because of its short positions. Mark Hollingsworth, president of Dominion Capital Advisors in Hampton, Va., an adviser for pension funds, says he can't buy derivatives for many of the accounts he manages. "If Loews is carrying a billion dollars' worth of downside protection," Hollingsworth says, "they start to look attractive as a hedge for investors like ourselves."

Tisch feels he will eventually be vindicated. "I don't want to be a genius—and I don't want to be a bum. I just want to be around with a sound financial company," he says. So far, Loews has paid a high price for Tisch's belief in the bear.

By Debra Sparks in New York



FACADE: YBM's reputation is enhanced by classy brokers

INVESTIGATIONS

RED FLAGS? WHAT RED FLAGS?

Despite Bre-X, Canada's regulators let another lulu get by

For four years, YBM Magnex International Inc. was a darling on the Canadian stock markets. The small Pennsylvania-based magnet maker grew from a shell company that traded for pennies on the wild and woolly Alberta Stock Exchange to a global industrial player whose stock climbed to nearly \$14 a share last March, hiking its market value above \$600 million. It was boosted by analysts from some of Canada's toniest brokerage houses. As a way to tap into promising trade with the former Eastern bloc, it stirred interest and recruited high-profile board members.

The bubble burst on May 13, when the U.S. Customs Service, Federal Bureau of Investigation, Internal Revenue Service, and Immigration & Naturalization Service raided the company's Philadelphia-area headquarters. A spokeswoman for the Royal Canadian Mounted Police says the raid was part of a two-year criminal investigation. Trading in YBM has been suspended on the Toronto Stock Exchange. The company, whose auditors, Deloitte & Touche, say it may have been involved in "illegal acts," is awaiting a report by outside investigators requested by the indepen-

dent directors. YBM spokesman Guy Scala says the company is "aware of no facts which support speculation that it has engaged in unlawful acts."

What's most remarkable about the YBM saga is the veritable forest of red flags that were ignored by Canadian securities regulators, brokerage executives, and investors: disturbing associations with alleged Russian gangsters, suspicions of money laundering that drew the eyes of law enforcers worldwide, and the company's questionable financial statements. Regulators, who knew of YBM's dubious origins, cleared it for trading first in Alberta and then on the prestigious Toronto exchange. And investors, especially many of Canada's major-league mutual funds, helped YBM through a \$34 million public offering last fall. "As a Canadian investor, I find it embarrassing," says Stephen Foerster, an associate professor of finance at the University of Western Ontario. "It can tarnish the image of Canadian markets in general."

Hints of trouble have surrounded YBM since 1994. First, there was its peculiar start: YBM's backers—chiefly Jacob G. Bogatin, a Russian-born magnet-science expert, and Semeon Mogilevitch, a

suspected organized-crime leader from Hungary who together with relatives and associates as a principal YBM shareholder picked up a worthless corporate shell on the Alberta Stock Exchange called Pratecs Technologies Inc. By going public through merging YBM into Pratecs, the company avoided the intense scrutiny that accompanies an initial public offering—either in the U.S. or Canada. Bogatin declined to comment. Attempts to reach Mogilevitch to obtain his response to this article were unsuccessful. Scala says Mogilevitch had no role in management and not only a small shareholder.

The most glaring sign of problems arose in mid-1995. Pratecs halted trading for six weeks when Alberta exchange officials were alerted that British investigators were looking into an affiliated outfit, Arigon Co., on suspicions of money laundering. For a time, Arigon's assets were frozen in Britain, but legal actions were dropped. Mogilevitch, however, was banned from entering Britain. Nonetheless, officials of the Alberta Stock Exchange permitted trading to resume, explaining

CHECKERED HISTORY

1994 Promoters of YBM acquire corporate shell, Pratecs Technologies, in Alberta to go public, avoiding scrutiny of initial public offering

JUNE-JULY, 1995 Trading in Pratecs is halted for six weeks when British authorities probe ties of affiliated company, Arigon Co., to alleged Russian mobster. Charges in Britain dropped for lack of evidence

NOVEMBER, 1997 Deloitte & Touche, auditors brought in at request of Ontario Securities Commission, demand adjustments to YBM's financial reports for 1996

MAY 8, 1998 YBM seeks a delay for filing financial statements because Deloitte & Touche suspects "illegal acts."

MAY 13, 1998 U.S. authorities raid YBM's offices in Pennsylvania. Stock trading in Toronto suspended

they couldn't bar it without proved doing.

pite its questionable origins, s changed its name to YBM and ole to rebuild its reputation with lp of some of Canada's most dish- ed brokerage firms. In late 1995, Marathon Securities Ltd., Canada's independent investment house, riffs McBurney & Partners, ighly entranced by the company's ing ventures in the fast-growing communist countries, helped YBM h a \$9.4 million underwriting. A man for First Marathon says due- ce reviews on YBM were "com- sive" and took note of the British gations but cleared the firm for nent anyway. Says First Mara- spokesman F. Michael Walsh, "We as much taken by surprise by vents as anyone."

R BIZ? Critics say the underwrit- uld not have had to look far for signs regarding Mogilevitch and ociates. Magnex and its subsidiary, turned up in overseas news ac- about Russian mobsters in 1995. ecently, warning signs arose with- Deloitte & Touche raised worries ow the company does business. ily a maker and seller of indus- agnets, it also apparently traded oil through complex bartering ements in Eastern Europe that nded Western auditors. In its tus, the company noted that D&T d the oil wasn't accurately record- inventory because of "inadvertent n the part of management." A okesman says it does not take rectly in bartering.

ysts, though, kept supporting the hen it dipped in March, Nesbitt analyst Peter Sklar gushed that ndamental prospects for the com- re intact and that the recent ss presents a buying opportuni- ncouver market critic Adrian du who has written extensively on mpains analysts "don't do their ork." Sklar declined comment. ome critics, the YBM saga dra- the shortcomings of the frag- egulation in Canadian securities s. "Maybe we need to upgrade ole practice in Canada and har- it with similar practices in the says G. Andrew Karolyi, a pro- of finance at the University of n Ontario. Coming on the heels year's multibillion-dollar Bre-X s Ltd. gold-mining scandal, Cana- ck markets can't afford yet an- uniliating black eye.

By Joseph Weber in Toronto

COMMENTARY

By Dean Foust

BIG BANKER MAY BE WATCHING YOU

Suppose that when you retired, your bank started deluging you with mailings for senior services—each tailored to your exact income, health needs, and spending habits. Or your lender slashed your credit-card limit from \$20,000 to \$500 after you were diagnosed with a serious disease.

Those two Orwellian scenarios may sound far-fetched, but they might not be for long. In the wake of the proposed megamerger between Citicorp and Travelers Group Inc. and the mad rush by large insurers to acquire thrift charters, consumer advocates are raising valid questions about whether the insurance arms of these new conglomerates will share sensitive medical records with their lending and marketing divisions.

Critics fear that as the new Citigroup and other planned banking behemoths strain to justify their hefty sticker prices, they'll face increasing pressure to exploit customer data for profit. But if they overstep their bounds, the financial industry "risks a customer backlash that could... lead to restrictions on your ability to use precious information resources," warns Acting Comptroller of the Currency Julie L. Williams.

Banking representatives downplay the risks, arguing that lenders would be loath to use health records in the credit process for fear of violating the Americans with Disabilities Act. And at Citicorp, spokesman Jack Morris says that "I don't think we have even thought about" using Travelers' insurance records.

But the biggest justification for creating conglomerates like Citigroup—and the combined Bank of America-NationsBank Corp.—is exactly the syn-

ergy from cross-marketing new products. In 1996, bankers lobbied Congress vigorously for changes in the Fair Credit Reporting Act of 1970 that let them share more credit information with affiliates dealing in life insurance, mortgages, and credit cards—much to the chagrin of activists. "We think it's inappropriate for banks to use information in ways that consumers didn't expect," says Susan Grant of the National Consumers League.

BOILERPLATE. Unfortunately, banks sharing data with affiliates are exempt from some of the regulations governing independent credit bureaus. These bureaus are where lenders up till now have turned to determine a borrower's creditworthiness. But while Congress prohibited the credit bureaus from dealing in medical records without a customer's consent, the new financial hybrids are under no such restrictions. And while banks are required to allow customers to opt out of having their data used for other purposes, banks generally do little to alert customers to their rights—often burying it in legal boilerplate.

If financial firms don't want Congress to intervene, they should erect Chinese walls to prevent confidential health records from being used in the marketing or lending process. Otherwise, the extra dollars generated from "synergy" will be diminished by the cost of incurring the public's wrath.

Foust follows banking issues in Washington.



BONDS

A RISING MOUNTAIN OF EUROPEAN JUNK

As the euro's day nears, investors scurry for higher yields

Eurojunk has arrived—big time. In the first five months of this year, high-yield debt issues by European corporate borrowers soared to \$8.2 billion, surpassing the \$6 billion raised in all of 1996. On May 11, the biggest deal yet was announced. The British venture capital groups Cinven and CVC will use a hefty slug of junk to help finance their \$1.7 billion buyout of Koninklijke KNP BT, a Dutch packaging company. Final terms have not yet been disclosed, but industry sources are expecting the issue's size to beat the previous Eurojunk record, a \$510 million deal in March by NTL, a British telecom company.

The surge in junk is being driven by powerful financial changes sweeping the Continent. Plunging interest rates across Europe ahead of the launch of the euro on Jan. 1 have sent investors scurrying for higher yields. And privatizations, mergers and acquisitions, and corporate restructurings—often sparked by preparations for the single currency—are now being financed increasingly with bonds, rather than bank loans. "European Monetary Union has engendered a frantic search for yield. This will supply a substantial amount of the capital needed to help finance the restructuring of Europe," says Morgan Stanley Dean Witter & Co. Managing Director Alan Jones.

FINANCIAL FIREPOWER. Issues by newly deregulated telecommunication and cable-TV companies have so far accounted for roughly 60% of the European high-yield debt. But Europe's thriving leveraged buyout market is likely to change all that. With global stock prices approaching the stratosphere, institutional investors are increasingly looking to private equity for better returns. Sources es-



BIG HIT: HMV issued junk in dollars and pounds

timate that \$15 billion in private equity capital has already been dedicated to Europe. All the liquidity helped fuel \$35.7 billion in European LBOs last year, compared with \$28.7 billion in the U.S.

Junk is rapidly becoming the leveraged buyout financing tool of choice. Indeed, Jones estimates that investors are armed with enough financial firepower to acquire from \$25 billion to \$40 billion in LBO deals annually. Since 30% of a typical leveraged buyout is financed with high-yield paper, this could translate into \$7 billion to \$12 billion in new issues.

Helping fuel demand for junk is a stupendous rally in formerly high-yielding government

bonds. Three years ago, the yield on Italian government bonds was more than 12%, some 650 basis points above a comparable German debt. But with the prospect of joining the euro, that premium has narrowed to less than 200 basis points, notes Lehman Brothers & Co. credit-market strategist David Munzel. In contrast, some high-yield European corporate bonds trade at 350 to 450 basis points or more over German government debt. For instance, a \$100 million issue of 10-year senior subordinated notes by Britain's Media Group in April yielded 500 basis points over U.S. Treasury bills. A simultaneous issue of HMV's \$500 million of 10-year bonds denominated in pounds had an even wider spread—498 basis points over British gilts.

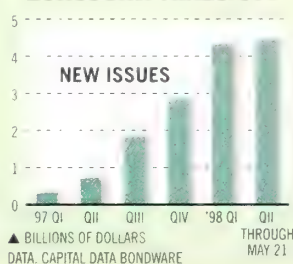
FREE-FOR-ALL. Until recently, Europe's junk-bond market was an American game. Before the deal, all 30 Eurojunk-bond issues made were underwritten by top-tier American investment banks, such as Goldman Sachs, Morgan Stanley Dean Witter, Merrill Lynch, and Donaldson, Lufkin & Jenrette. Morgan Stanley is leading the pack in 1998 with \$5.6 billion in announced deals through May. Indeed, more than 80% of the Eurojunk issues have been denominated in U.S. dollars and sold to American institutional investors. But European competitors are jumping in. The KNP issue, for example, will be managed by a European bank, London-based Hambrecht & Co., and denominated in German marks.

Still, the Europeans lack the deep experience the Americans possess. So many European houses, including Credit Suisse First Boston, ING Bank, SBC Warburg, and Deutsche Bank, have been hiring U.S. junk-bond veterans. At Barclays Bank, for instance, American Joe Bencini oversaw the KNP deal as head of the bank's global high-yield division. He came to Barclays after more than 10 years in the U.S. junk market, where he worked as an analyst with Drexel Burnham Lambert, the onetime junk-bond king.

Europe's junk market may be more than 20 years behind America's, but with LBO restructurings aplenty and investors searching for high yields, it shouldn't be long before Eurojunk gets the same respect it has gotten in the Atlantic.

By Kerry Capell in London

EUROJUNK TAKES OFF



(why accept the charges?)

Most calling card calls slap you with up to 99¢ in hidden charges on each call.



Introducing the AT&T One Rate Calling Card Plan.
One low rate. No hidden charges.

	AT&T One Rate Calling Card Plan	MCI One	Sprint Sense	Premiere WORLDLINK
Service Charge per call	0¢	99¢	30¢	25¢
Cost per minute	23¢	30¢	30¢	31¢

Rates in effect as of 12/97

AT&T just made calling card calls simple with the AT&T One Rate Calling Card Plan. You get one low rate a minute anytime, anywhere in the U.S. on all your long distance AT&T Calling Card calls when you dial 1 800 CALL ATT. No gimmicks. No hidden charges. Just a \$1.00 monthly fee. Call to sign up and find out how you can start saving now.

Call 1 800 878-3288

It's all within your reach.



BY GENE G. MARCIAL

FROM ICOS: THE SON OF VIAGRA?

If it's true that biotechnology stocks are starting a long bull run, as some analysts believe, Jim McCamant is ahead of the pack. He has been pounding the table for investors to invest in biotechs, a group he says is pregnant with future Genentechs, Chirons, and Amgens.

A big favorite of McCamant, editor of *Medical Technology Stock* newsletter in Berkeley, Calif., is ICOS (ICOS). The company has a number of products in various stages of clinical trials—including IC351, an anti-impotence pill that, he says, "will be a potentially better product than Pfizer's Viagra, because it has fewer side effects."

ICOS hasn't grabbed investors in the way Viagra and other Viagra wannabes have: The stock is currently at 15%, down from a peak of 18% on Dec. 30. But it has high-profile backers: Bill Gates is on the ICOS board and owns 13% of the stock, and George Rathmann, co-founder of Amgen, is chairman and CEO of ICOS, with 5.3%. The company has yet to make money.

Considering all the new products in ICOS' pipeline, including IC351 (yet to be assigned a brand name), the stock is worth twice its current price, says McCamant. In January, ICOS initiated

phase-two trials of IC351 on men with erectile dysfunction. IC351 blocks the action of enzymes called phosphodiesterases (PDEs), believed to inhibit production of an erection, explains McCamant. IC351 controls the same enzyme that Viagra does. The reason that this



MCCAMANT: ICOS stock is worth twice its price now

pill has fewer side effects, claims McCamant, is that IC351 is more selective: It inhibits just the enzymes that block blood flow into the penis.

McCamant figures that, given the attention investors have showered on Viagra, "even a modest success by IC351 should have an impact on ICOS' stock." ICOS may also develop IC351 as a treat-

ment for congestive heart failure and angina, says McCamant. He expects that tests will validate IC351's safety before yearend. Trials are expected next year to evaluate the pill's efficacy.

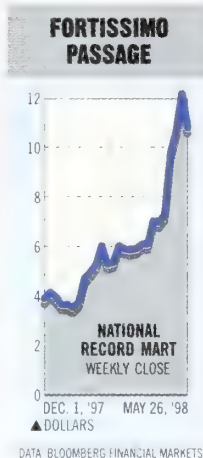
NATIONAL RECORD BELTS IT OUT

Suddenly, investors are high on music, snapping up shares of National Record Mart (NRMI), which owns and operates 154 stores in 27 states. Its stock, trading at 3¢ a share in January, shot up to 10¢ on May 26. What's going on?

"First of all, we have a specialty retailer whose sales are rising faster than those of anyone else in the industry," says Robb Knie of Equity Advisory in Hackensack, N.J., who thinks the stock is undervalued despite its sharp runup. In the past nine months, he notes, the company posted double-digit growth in same-store sales, with April sales rising a neat 18%. And then there's the Internet, he adds, which the company will exploit to buy and sell new and used CDs. "National Record is negotiating with a major Internet company to co-brand a music site," says Knie. The sale of used CDs alone could add 20¢ a share to earnings, he figures.

There's also talk of a buyout, says Knie, who notes that a group that controls Wherehouse Entertainment, which operates more than 200 music stores, has taken a 3% stake in National Record. Wherehouse has been a consolidator, says Knie, and could opt to acquire National Record. He thinks the stock is worth 22 to 24 in a buyout. CEO William Teitelbaum, who controls 30% of the stock, declined to comment on whether a suitor has approached him about a buyout.

Analyst Roger Porter of investment firm Branch Cabell in Richmond, Va., says National Record is undervalued based on its earnings growth rate and the stock price of its peers. He figures the company will earn 60¢ in 1999 based on sales of \$142 million and "north of a



dollar in 2000, based on sales of \$50 million," up from an estimated 11¢ this year on sales of \$109 million.

BOLDER GETS A RECHARGE

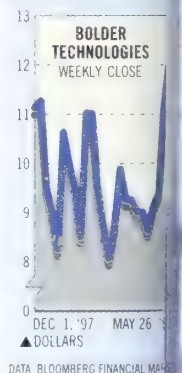
The stock of BOLDER Technologies (BOLD) was on the ropes in February. At 7¢, shares had fallen from a high of 17¢ a year earlier. Delays in production of its small but high-powered lead-acid battery disappointed investors. And adding a poison pill to ward off raiders dismayed investors even more. But of late, the stock has risen—to 10¢ on May 26.

The reason: Analysts expect the company's battery will be in production before yearend, reaching 10,000 units a day by mid-1999. "It has taken longer than we expected," says Carl Stutta, general partner at Columbine Venture Fund, which owns 19% of the stock. But "we're very excited about BOLDER's patented thin-metal film technology," adds Stutta, who is also a member of BOLDER's board. CEO Dan Lankford of firms that production will start this year. "We're eyeing broader uses for our battery," he adds.

The viability of BOLDER's products is supported by car-battery giant Johnson Controls, which has acquired a 6% stake. Johnson Controls has a license from BOLDER to market its output in certain markets. BOLDER's battery has twice the punch of other rechargeable batteries but is only one-fifth as heavy. BOLDER batteries, which recharge in five minutes, are designed for jobs such as jump-starting a car.

Clinton Morrison of investment firm John G. Kinnard in Minneapolis figures the company will remain in the red through next year, when it's expected to post a loss of 35¢ a share on revenue of \$12.1 million, vs. a loss of \$1.10 a year on \$2.3 million.

STRONG JOLT A ROLLOUT NEAR?



BusinessWeek ONLINE

For more coverage of the markets, visit our Web site at businessweek.com

These Business Week advertisers on the Web:

.com
ra.com
na.com
erican Institute
ects
online.com
tributors
funds.com
d.com
n Isuzu Motors Inc.
u.com
n Power Conversion
c.com
andersen
urAndersen.com
Consulting
om
com
urance & Investment
com
elecom
obal.com
omputer Systems
anon.com
slercorp.com/
o.com
Group
oup.com
fy.com
Transportation Inc.
om
disco.com
paq.com
are Corporation
puware.com
egie Training
carnegie.com

Dana Commercial Credit
www.dana.com/dcc
DataWorks
www.dataworks.com
Datek Online
www.datek.com
Digital PC
www.windows.digital.com
Diners Club International
www.dinersclub.com
J.D. Edwards & Company
www.jdedwards.com
Energy Cost Savings Council
www.plugin.org
Equitable/AXA
www.equitable.com
Ericsson
www.ericsson.se
E*TRADE
www.etrade.com
Exide Electronics
www.exide.com
Federal Express
www.fedex.com
Fidelity Investments
www.fidelity.com
FileNET
www.filenet.com
FlexiInternational Software
www.flexi.com
Ford
www.ford.com/
Founders Growth Fund
www.founders.com
Fujitsu
www.fujitsu.com
Fujitsu PC Corporation
www.fujitsu-pc.com
Gateway 2000
www.gateway.com
General Motors
www.gm.com
General Motors-OnStar
www.onstar.com
GTE
www.gte.com

Hammermill
www.hammermillpaper.com
Hewlett-Packard
www.hp.com
Hilton Hotels & Resorts
www.hilton.com
Hitachi
www.hitachi.com
Hoechst
www.hoechst.com
Honda
www.honda.com
Hyatt Hotels Corporation
www.hyatt.com
IBM
www.ibm.com
Intel
www.intel.com/
International Institute for Management Development
www.imd.ch/
International Paper
www.ipaper.com
Invesco
www.invesco.com
Iomega
www.iomega.com
ITT Hartford
www.ithartford.com
Kinko's Corporate
www.kinkos.com
Lawson Software
www.Lawson.com
Lexus
www.lexus.com
Lincoln-Mercury
www.lincolnm Mercury.com
Lotus
www.lotus.com
Lucent Technologies
www.lucent.com
Lufthansa
www.lufthansa-usa.com
MCI
www.mci.com
Mercedes-Benz
www.usa.mercedes-benz.com
Merrill Lynch
www.ml.com/
Microsoft
www.microsoft.com/
Mitsubishi Electronics America, Inc./Electronic Device Group
www.mitsubishichips.com

Mitsubishi Motor Sales of America
www.mitsucars.com
MOVADO
The Museum Watch
www.movado.com
NCR
www.ncr.com
Network Associates
www.nai.com
Norfolk Southern
www.nscorp.com
Nortel
www.nortel.com
Northrop Grumman
www.northgrum.com
Northwest Airlines
www.nwa.com
Oracle Corporation
www.oracle.com
PeopleSoft
www.peoplesoft.com
Praxair
www.praxair.com
QAD Inc.
www.QAD.com
QUALCOMM
www.qualcomm.com/cdma
Roberts Express, Inc.
www.roberts.com
SAP
www.sap.com
SAS Institute
www.sas.com/
Savin
www.sales@savin.com
Charles Schwab
www.schwab.com
Seagate
www.seagate.com
Siemens Corporation
www.siemens.com
Siemens Microelectronics
www.smi.siemens.com
SkyTel
www.skytel.com
Sprint
www.sprint.com

StorageTek
www.storagetek.com
Sun Microsystems
www.sun.com
Sybase
www.sybase.com
Symantec
www.symantec.com
Symbios Logic
www.symbios.com/bw.htm
Texas Instruments
www.ti.com
TIBCO
www.tibco.com
Tivoli
www.tivoli.com
Toshiba America Information Systems
computers.toshiba.com
Toyota in America
www.toyota.com/usa
Toyota Motor Corporate Services
www.toyota.com/usa
Toyota Motors
www.toyota.com
T. Rowe Price
www.troweprice.com
Unisys
www.unisys.com
United Technologies
www.utc.com
UPS
www.ups.com
US Airways
www.usairways.com
USPS Priority Mail
USPS.supplies.gov
US Web
www.usweb.com
UUNET Technologies
www.uu.net
The Vanguard Group
www.vanguard.com
Visteon
www.visteonet.com
Visio
www.visio.com
Xerox
www.xerox.com

BusinessWeek

www.businessweek.com

If knowledge is power,
this is omnipotence...

www.businessweek.com

BusinessWeek **ONLINE**

EDITED BY AMY DUNKIN

COMMODITIES ARE CHEAP— TIME TO LEAP?

This has been a grim spring for commodities traders. Asia's reeling economies are pumeling the prices of everything from copper to crude, sending the Goldman Sachs Commodity Index down 16% this year to its lowest point since

INVESTING

early 1996. But some contrarian investors, perhaps mindful of Warren Buffett's huge bet on silver, are refusing to abandon ship. They argue that Asia should recover in a year or so, and commodity prices will begin to cycle up again. Indeed, John Di Tomasso, president of the Di Tomasso Group in Victoria, B.C., argues that in real terms, commodity prices are the cheapest in nearly eight decades. "If you're a long-term investor, this is as good as it gets," he says.

So should you put a few bucks into commodities while they're dirt cheap? If you have an appetite for risk, you may want to get in. But think twice before you take a flier on soybeans. Although commodities may be bargains today, some 70% to 90% of individual investors lose money in the highly leveraged and volatile futures markets.

Instead of betting on a single commodity, you may be better off investing

through a commodity trading adviser (CTA), managed futures fund, or pool. Many offer diversified portfolios and try to navigate shoals by trading in and out of individual commodities with lightning speed. "You aren't

buying a market," says Aladin Abug-

hazleh, president of ATA Research, a Dallas firm that places money with CTAs for investors. "You're buying a manager's skill."

STRONG RETURN. To be sure, those skills haven't saved their investors from disappointment in 1998. The Barclay CTA Index of 327 advisers rose a mere 0.1% through Mar. 30, the latest data available. But since 1993, the CTA index has still produced an average annual return of 8.7%, with only one down year, in 1994. U.S. Treasuries, by contrast, have lost money in two of the past five years.

CTAs also have shown a low correlation with the Standard & Poor's 500-stock index. This means that for every 1% move in the S&P, the Barclay CTA index has moved just 0.06%. Commodities have also shown a low correlation with Treasuries, moving 0.08% for every 1% jump in the Lehman Brothers Treasury bond index. This doesn't mean a sharp drop in

stocks or bonds will cause commodities to move smartly in the other direction. But it makes an argument for diversifying into an asset class that doesn't track stocks well if you're concerned that the S&P—up 15% this year and 33% in the past 12 months—has risen too fast.

There are several ways to add managed futures to a portfolio. If you can afford a minimum account of between \$100,000 and \$2 million, you'll probably go for an individually managed futures account. You select a CTA who makes trading decisions for you. That means giving the adviser full discretion over trading, although you can elect to have the transactions carried out at the brokerage house of your choice. The adviser will give the details of each trade by E-mail, regular

Where to Get Info

SOURCE PHONE WEB HTTP://

BARCLAY TRADING GROUP

800 338-2827 / www.fairfield.com/barclay

LAMP TECHNOLOGIES

214 346-4800 / www.traderscan.com

MANAGED ACCOUNT REPORTS

800 638-2525 / www.marhedge.com

DATA COST

CTAs \$150 for 4 quarterly issues

CTAs Free

Funds \$425 for pools 12 issues



or fax. If your investment winds up in the black, an expect an adviser to expect an incentive fee of 25% of profits after fees.

But managers also charge a management fee of 2% to 6%, and trading costs can add another 2% to 4% to your costs. The fees are similar to those of a hedge fund manager and when a CTA is involved in a gangbuster performance, few investors can resist the high costs. For example, Bill Eckhardt of Eckhardt Trading, who charges a 20% incentive fee on profits, also charges a plus management

and transaction costs of about 4%, has produced a compound annual return of more than 40%—after fees—since 1987. His program, which required a \$2 million minimum, is closed to new investors.

LONG-TERM PAYOFF. If a seven-figure commitment is daunting, you may want to look into public futures funds. They're available through full-service brokers or, sometimes, fund operators. They're akin to mutual funds in that they usually have lower minimum investments and diversified portfolios. They are also regulated by the Commodity Futures Trading Com-

mission, which requires funds to file offering documents. But funds remain the most expensive way to invest in managed futures. Unlike mutual funds, with annual expenses averaging around 1.5%, commodities funds have annual management fees of around 2%, plus additional annual costs of 6% to 10%. Many funds trim those costs by five percentage points, however, by returning all or part of the interest they earn on your assets.

Don't make the mistake of jumping from one hot man-

turns." The theory is that the more returns deviate from their average, or mean, the more risky the investment. So a low standard deviation can indicate less risk.

You can use standard deviations to measure futures against other asset classes. For example, common wisdom is that managed futures are always riskier than stocks or bonds. But that isn't always true. In 1997, the S&P index had an annualized standard deviation of monthly returns of 15.3% on a gain of 33.4%. The Barclay CTA Index produced a more modest return—10.9%—but a less risky standard deviation of 8.9%. California Managed Accounts I, a commodity pool with a \$25,000 minimum investment (800 888-1987), generated a 14.3% annual return and only a 5.1% standard deviation in the five years ended Apr. 30. It achieved this by parceling assets out to four CTAs whose performances have not been well correlated.

Also pay close heed to the "maximum annual drawdown," or the largest drop in net asset value of a fund or pool within a given period. Some spectacular returns have been generated by managers who concentrate on a specific sector, such as currencies, energy, or agricultural products. When these markets turn choppy, big losses can occur. For example, the Barclay energy traders index plunged 16.2% in the first quarter of 1998.

When investing in futures, you should always ask yourself whether you're prepared to suffer a 15% or 20% drop in assets over a short period. Over the longer run, however, some programs have offered decent returns with low volatility. Because of their low correlations with stocks and bonds, you may want to consider bottom-fishing in futures now, either to speculate on an upswing or insulate the rest of your portfolio against any downturns ahead. *Stanley W. Angrist*

How Futures Stack Up vs. Stocks and Bonds

	1993	1994	1995	1996	1997	1998*
FUTURES						
BARCLAY CTA INDEX**	10.4%	-0.7%	13.7%	9.1%	10.9%	0.1%
MAX. DRAWDOWN***	4.5	4.7	2.5	4.8	4.6	1.0
STOCKS						
S&P 500**	10.1	1.3	37.6	22.9	33.4	14.0
MAX. DRAWDOWN***	2.4	7.0	0.4	4.4	5.6	0.0
BONDS						
TREASURY BONDS**	16.4	-6.9	30.7	-0.4	14.9	1.5
MAX. DRAWDOWN***	2.7	11.7	1.6	8.2	3.3	0.7

*Through Mar. 31 **Annual return

*** Maximum one-month percentage drop in net asset value

DATA: BARCLAY TRADING GROUP LTD

In between funds and CTAs are pools. They're generally organized as limited partnerships and are less costly, with annual fees typically running about four percentage points less than

those charged by public funds. Most pools require a minimum initial investment of \$25,000 to \$150,000, however. They also have limits on their size. Regulators permit each pool to accept only 35 "unaccredited" investors—those with an annual income under \$200,000 for the past two years or a net worth of less than \$1 million, including homes, furnishings, and cars. Pools are prohibited from advertising or soliciting business, but you can research them via a number of sources, including Barclay Trading Group in Fairfield, Iowa (table).

Anyone investing in managed futures should understand the commonly employed measures of risk in the business. One of the most frequently heard terms is "standard deviation of re-





BETTER GRAB THIS TAX BREAK NOW

For more than 40,000 wealthy Americans with family or private foundations, it's time to play tax law chicken—again. On June 30, a tax provision that lets donors deduct the full value of appreciated stocks given to private foundations will expire. Congress isn't likely to extend the break before June 30, which means that deductions on gifts made afterward will be limited to the stock's basis—essentially, its purchase price. Given the 342% stock market gain of the last decade, that's a far smaller benefit.

If you're one of the 40,000—or want to join their ranks by creating a foundation—you have a dilemma. Should you rush a gift through? Or should you wait to see whether Congress will extend the tax break later in the year and make the extension retroactive, as it did last year? “Do it now,” says Cathy Brown, partner in the Boston accounting firm Brown & Brown.

She's working with one wealthy client to accelerate

her annual donation—stock typically worth 20% of her income—from November to June to beat the deadline. Congress “probably will patch it up later,” Brown says, “but if I had a big tax deduction on the line, I wouldn't count on the politicians coming through.”

GIVING

The tax break for foundation donors, called 170(e)(5) for its Internal Revenue Code section, is one of a handful of provisions known as “extenders.” These items are written so that they expire every year or two, and their survival depends on frequent renewals. The reason is budgetary: If Congress made these provisions permanent, budget rules would require lawmakers to find offsetting tax hikes or spending cuts to cover the cost for five years.

Among the extenders, only two directly affect individuals' taxes: the break that lets employers give workers tax-free tuition benefits and 170(e)(5). The tuition break is hooked onto an education

bill that's moving across Capitol Hill, but the foundations provision—which costs the Treasury a mere \$80 million a year—hasn't found a legislative vehicle to ride. Backers predict that Congress may not extend 170(e)(5) until October. When a similar delay took place in 1997, the extension was made retroactive to June. But there's no guarantee history will be repeated.

So donors might find it safest to give before June 30. The provision applies only to gifts of publicly traded securities—for other property given to a private foundation, such as closely held stock, artwork, or real estate, the deduction is always limited to the donor's basis.

If you give stocks to a private foundation, your deduction may decline after June 30

Philanthropists who want to create a new foundation face a tougher task: They would have to form a trust or corporation, turn over their stock to it by June 30, then apply to the IRS for foundation status as soon as possible, says John Edie, general counsel for the

Council on Foundations.

Private foundations appeal to the wealthy because they allow donors or their families more flexibility in both tax and directing their money. Foundations can make grants as well as outright gifts to other nonprofits, shaping the direction that research and community service take. Foundations can outlive their original donor. But setting up and running a foundation usually makes sense only for donors who plan eventually to contribute \$5 million or more, says Phoenix financial planner Dale Walters.

ALTERNATIVES. Donors can give less hefty sums and get good—and save on taxes—with other vehicles. For example, foundations and mutual companies, such as Fidelity Investments, offer “donor advised funds,” which will give gifts of cash or property to charities at the donor's choice. Donations of those funds—like outright gifts of stock to a charity—are deductible at the full market value, subject to overall limits on charitable deductions.

Alternatively, you can give your favorite charity would be happy to help set up a charitable remainder trust or a charitable gift annuity.

“planned giving” instruments that produce a smaller deduction but let you keep some of the income from your donated property.

Still, for many donors, nothing beats the pressure of putting the name on a foundation that can be doing good

long after the founder is gone. Since 170(e)(5) was passed in 1984, the number of private foundations has most doubled, with endowments in 1995 hitting \$1 billion. Little wonder that donors are still rooting for Congress to keep the break alive. *Mike Mc*

BIKES MADE FOR THE SPACE AGE

we still got two wheels and pedals, today's hottest bikes owe everything to the Space Age—and they could be going at warp speed. Borrowing from the aerospace industry, manufacturers are making frames from fiber composites, metal-ceramic and molded plastics into wind-tunnel frames and parts. New materials make them lighter and let them go with less effort than ever. Also, new on-board computers can do everything from changing gears to adjusting shock absorbers for the road. A design revolution has taken place since about 1980 when graphite bikes began appearing at triathlons, winning the winner's podium. These bikes, made of carbon fiber, are saturated with resin, making them strong and light, but also expensive: \$4,000 and up. However, an entry-level road bike such as the \$1,000 can be had for the cost of a midline bike.

Prices were high, in part, because of carbon fiber's tendency to break apart and potentially injure cyclists, leaving manufacturers exposed to expensive liability suits. But computer design systems capable of predicting failures have resulted in more durable bikes.

NO TRIANGLES. Being able to mold carbon fiber freed designers from the "double triangle" construction of steel and aluminum bikes. What resulted were radical new designs to lower wind drag, including V-shaped bikes from Zipp Speed Weaponry that

eliminated the tubes behind the seat. An aerodynamic design with blade-shaped tubes built by GT Bicycles for the U.S. Olympic team was so effective that the governing body of international bike racing is outlawing some aero models for offering an unfair advantage. That hasn't stopped Trek from releasing seven Y-shaped graphite bikes for road and trail use.

Carbon fiber and inexpensive molded thermoplastics also are going into parts. Seat posts, handlebars, pedals, cranks, and gear shifters are being made from such composites, as are aerodynamic wheels with a few thick spokes or no spokes at all.

Riders with a taste for ordinary-looking bikes don't have to settle for ordinary metal frames. Bikes made of titanium, once known as "unobtainium" because of its high price, are down from the stratosphere. A fully equipped titanium road bike costs as little as \$2,000, less than the price of a stripped frame a few years ago. Titanium models are lighter, absorb shocks better, and are more durable than steel or aluminum bikes. Titanium frames also don't weaken easi-

NEW WAVE: The Trek Y-shaped frame reduces drag

ly from flexing and retain their shapes.

Bikemakers have borrowed high-tech production methods from the aerospace industry. Cannondale uses computer-controlled lasers to precision-cut tubes, making frames easier to assemble and less costly.

FITNESS

Electronics also are changing

how bikes operate. Shimano, the world's largest bicycle-parts manufacturer, will bring its automatic transmission to the U.S. this fall. Called the Auto-D, it senses a bike's speed and how fast the rider is pedaling, then changes the gear. Bikes with the Auto-D shifter will start at \$450. Shimano also has introduced the \$70 Flight Deck computer, which indicates not only speed and cadence, but which gears are in use, among other things. And k2 makes a computer-controlled shock absorber called the Smart Shock. It reads trail conditions and adjusts the shock so the ride is softer on big bumps but stiffer on washboard surfaces, to provide control.

The shocks come only on k2 bikes and cost \$180 apiece. All this Space Age technology won't turn weekend cyclists into Olympians, but it might make them feel like they are. *Roy Furchgott*

Four for the Road

	PRICE*	COMMENTS
10	\$1,000	Carbon-fiber tubes glued to aluminum lugs provide a smooth ride
100	\$2,550	Light, flexible titanium frame absorbs shocks well
200 EMS	\$3,671	The 2.6-pound carbon-fiber frame weighs less than two full water bottles
1	\$5,500	V-shaped bike with no tubes behind the seat means lower drag and less effort

FOR AD RATES AND INFORMATION
PHONE: (312) 464-0500
FAX: (312) 464-0512 OR WRITE:

BusinessWeek

MARKETPLACE

BUSINESS WEEK MARKETPLACE
500 NORTH MICHIGAN AVENUE, SUITE 20
CHICAGO, IL 60611

Corporate Gifts/Premiums

THIS IS
AMERICA

YOU'RE ALLOWED TO

AT 1 A.M. IF YOU WANT TO.

PROMOMART

<http://www.promomart.com/bw>

Enter the monthly drawing
for \$1,000 in free stuff!

Visit www.promomart.com/bw

Home Furnishings

BUY DIRECT!

from North Carolina, furniture
capital of the world. Shop and
save. In home delivery. Over 400
manufacturers to choose from.

HOMEWAY FURNITURE COMPANY
P.O. Box 1548, Mt. Airy, NC 27030
(800) 334-9094 (336) 786-6151

Stress Relief Products

PANASONIC - THE FINEST IN SHIATSU MASSAGE CHAIRS

• Have Your Own Personal
Massage
Therapist: Day-
Night Office-Home

*Get Full Details Today!
Panasonic Massage Chairs Direct
Traditional or Contemporary Styles
Nationwide 800-353-9917

Corporate Gifts

Logo Tattoos!



1000 Temporary Tattoos with your Logo,
Just \$19.99!
plus \$18.00 SHIP (CA add 7.25% sales tax)
Customized Full Color 2" x 2"

Calico

2000 Alameda Drive, Ste 201 • Vallejo, CA 94597
Tel: 707/448-7072 • Fax: 707/448-9273

Corporate Promotions

**Inexpensive Corporate Giveaways
that REALLY work - don't get
thrown away!**

Custom Designed Leather Bookmarks

Clients love them and are constantly
reminded of YOU! Visit our Web Site
www.leatherbookmarks.com

OR

Send us your logo. We will suggest a layout
and send you a typical sample free of charge

AMEROPAN CORPORATION

7 Corporate Dr., 109C, North Haven, CT 06473
Tel 203 239-0448 Fax 203 234-8820

Computer Equipment

HEWLETT-PACKARD

Buy-Sell-Trade

LaserJet ColorPro Draft Master
DeskJet DraftPro DesignJet
ElectronJet Plotters RugerJetWriter

HP 9000 Workstations & Vectras
Demo & Refurbished Equipment

Ted Dasher & Associates

PO Box 131269 Birmingham, AL 35213-6269
Phone 205/263-4747 Fax 205/263-1108
800/638-4833 • E-mail sales@dasher.com

Corporations

We BUY Your PC's

Any Brand, Any Quantity
Will TRADE for New Equipment
1710 28th St SW • Wyoming, MI 48309
616-249-3512 / EMAIL jbryant@sundcom.com

Business Financing

GET CASH FOR INVOICES Finance Your Accounts Receivable

Low Rates • No Hassles • No Financials

We can customize financing
to suit your company

AeroFund Financial, Inc.
(800) 747-4234

Funding Sources!

V. Capital Inv Banks Insurance
Pensions SBIC's R/P/Shell's
Pri investors Reits SBA Micro's

Search 10,000 custom profiles by
project/finance type on CD Rom

Contact details, dollar amounts
avail. Guaranteed. Free Info.
www.bizwarehouse.com/bw
1-914-628-2618

Travel

Carlson Wagonlit

Atlantic & Pacific Travel
LOW FARES AND PACKAGES
HAWAII, ASIA & PACIFIC

1-888-537-9966 • Toll Free

(808) 531-4825 • Fax

e-mail atlpacktl@worldnet.att.net
www.carlsonhawaii.travel.com

Education/Instruction

AWARD WINNING DISTANCE EDUCATION

MBA & MS Degrees

Executive Education



800.441.4746

www.isumu.edu

Accredited by the
Distance Education Training Council

EARN YOUR COLLEGE DEGREE AT HOME

1-800-767-CHAD
www.chadwick.edu

CHADWICK
UNIVERSITY

MBA BY DISTANCE LEARNING

Major British university offers accredited MBA, no
experience, **NO** work
Intelligence Unit as one of world's best MBA programs

HERIOT-WATT UNIVERSITY (800) MBA-0707

North Carolina • Information • Day • Evening •

6921 Stockton St, Suite 2, El Cerrito, CA 94530

For immediate FaxBack literature, from your
fax machine's phone, call (510) 486-8900.

The Leader in Distance Learning for 20 Years

• Associate • Bachelor • Master • Doctor
Business Mgmt, HRM, Health Care,
Psychology, Law, Mgmt of Technology

Southern California University
for Professional Studies

1840 E 17th St BW,
Santa Ana, CA 92705

800/477-2254 www.scups.edu

Residential Roofing

A
LIFETIME
OF
beauty

Country Manor Shake Aluminum Roofing

Wood Shake Look • Five Natural Colors
Fire Safe • Energy Efficient • Lifetime Warranty
A Permanent Improvement to Your Home!

For more information, call Perfection

1-888-788-2427

Business Service

OFFSHORE CORPORATION

♦ Protection, Privacy, Tax-Free
♦ Nominees, Bank Accts, Cred
♦ Lic. Offices: Las Vegas - Na
♦ Flat Rate Fees, Nevada Corp

ORDER BY PHONE FREE
1-800-997-25

SAVE 30% to 50%

3-TO-A-PAGE

BUSINESS CHECKS

& LASER/INKJET

COMPUTER CHECKS

Call for a FREE brochure

1-800-239-40

DESIGNER CHECKS

www.designerchecks.com

100% SATISFACTION GUARANTEE

INCORPORATE

• FREE Information
• All U.S. States and Ca
• Attorney owned and op

1-800-672-91

www.corpreations.com

TRADEMARK

Business Service

INCORPORATE BY PHONE!

For as little as \$39 plus s
we will form your Corporation
in **any state**. Last year our
nies incorporated over
businesses. We specia
assisting first-time incorp

In as little as 5 min
the phone we'll take your de
in most states you will be c
rated in just 24-48 hours. I
to fill out, we do all the w

Call now to set up your
or get our **free** guide to c
rating today!

800-877-42

302-998-0598 • FAX 302-998-0598
www.corporate.com • Comput

Email: info@corporate.com

CORPORATE AGENTS

Since 18

We incorporate every

FOR AD RATES AND INFORMATION
PHONE: (312) 464-0500
FAX: (312) 464-0512 OR WRITE:

BusinessWeek

MARKETPLACE

BUSINESS WEEK MARKETPLACE
500 NORTH MICHIGAN AVENUE, SUITE 2010
CHICAGO, IL 60611

Business Opportunities

Potential Annually
E-BASED BUSINESS
Pre-Qualified Leads Per Day
start-up less than \$10K.
- \$75K possible first few
Break-through product.
work from phone, fax
complete training. Not MLM
DOM ASSOCIATES
1-432-0018 X5257

MAKE MONEY AS A BUSINESS FINANCE CONSULTANT

Arrange *Business Loans* and
Equipment Leases from \$1,000 to
\$10 million. No co-brokering. Work
directly w/National Lenders.
Unlimited earnings potential and
residual income.
COLOR brochure and FREE
computer disk
CALL 1-800-336-3933
The Loan Consultants, Inc.

Private Bank
File / Free Report
800-733-2191 (USA)
800-798-3842 (USA)
ail:wbc@ibm.net
le Business Consultants

I MADE OVER \$1,000,000 LAST YEAR...

...in a zero stress, relaxed, ideal
lifestyle, simple, home-based business!
Now I want to teach 2 highly
motivated persons in your area my
turn-key system. Call my

24 Hr. Hotline 800-331-0312

How This Low-profile,
sed Business Can Earn
creative Lifetime Income
y, no overhead, minimal seed
celerate your return at your
for complete 42-pg discovery
ease send \$3 (S&H) to:
Mr. S. Santos
22 Idaho Street
do, TX 78041-3213

Franchise your business!

Call for information on franchising and
"Franchise Your Business!" seminars
scheduled throughout the country.

francorp

Specialists in Franchise Development BW
1-800-FRANCHISE (1-800-372-6244)

**DON'T MISS THE OPPORTUNITY
TO ADVERTISE IN THE
BUSINESS WEEK MARKETPLACE AND
REACH OVER 6 MILLION RESPONSIVE
READERS WITH THE EDUCATION,
FINANCIAL ABILITY AND INTEREST
TO RESPOND TO YOUR OFFER.**

The next MarketPlace section
closes on June 25th for
the August 10th issue.
For rates and information contact:

Business Week MarketPlace
500 North Michigan Avenue
Suite 2010
Chicago, IL 60611
Phone 312-464-0500
Fax 312/464-0512

Menswear/Fashion

MEN'S WIDE SHOES

EEE-EEEEEE, SIZES 5-13
FREE catalog • High quality • 160 styles



HITCHCOCK SHOES, INC.
Dept. 55F Hingham, MA 02043
1-800-992-WIDE www.wideshoes.com

Sports Equipment

BATTING TUTOR

• Fastballs, curves, sliders
• Safe for backyard use
from \$449
800-448-8867
www.sportstutor.com

Investment Services

POWER INVESTING

Our DRIP 50 Index has beaten the S&P for
3 yr and 5 yr returns. Not just for small
investors, anymore. We recommend only
top quality, "investor friendly" companies
currently in favor on Wall St and selling at
no, or little, premium to their growth rates

North Shore Associates
Box 97, Winnetka, IL 60093
847-446-4406
http://powerinvestdrips.com



Your Legal Fortress

- Alternative Estate Planning
- Unique Cost Effective
- Tax-Income Optimization

Rock-solid, Specialty Legal-Financial Techniques
designed to protect anyone's Income, Assets,
& Privacy from Public or Private Challenge
(800) 935-5171 x3863 (x FUND)

Cigars

CUBAN CIGARS

DELIVERY ANYWHERE
Canada 416-966-0040

Books / Videos

WHAT'S THE SMARTEST \$19.95 INVESTMENT YOU'LL EVER MAKE?



It just may
be this
fascinating
book,
written
by one of

the country's top money
managers. You'll find useful
information on inflation,
insurance, budgeting, invest-
ing and debt reduction —
and the steps you can take to
reach your financial dreams.
Just \$19.95, including ship-
ping and handling.

To place your order, or
for a free brochure, call:
1-800-234-3445, ext. 154

DEER PUBLISHING, INC.

"Superb advice from the ultimate pro"
Malcolm S. Forbes, Jr.

Publishing

Have you written a BOOK?

Being a published author can be a huge
boost to your career. We are the subsidy
publisher with a big difference.
Call for our brochure (800) 648-5646,
or check our web site listed below

www.LondonBooks.com

Boarding/Prep Schools

RIVERSIDE MILITARY ACADEMY

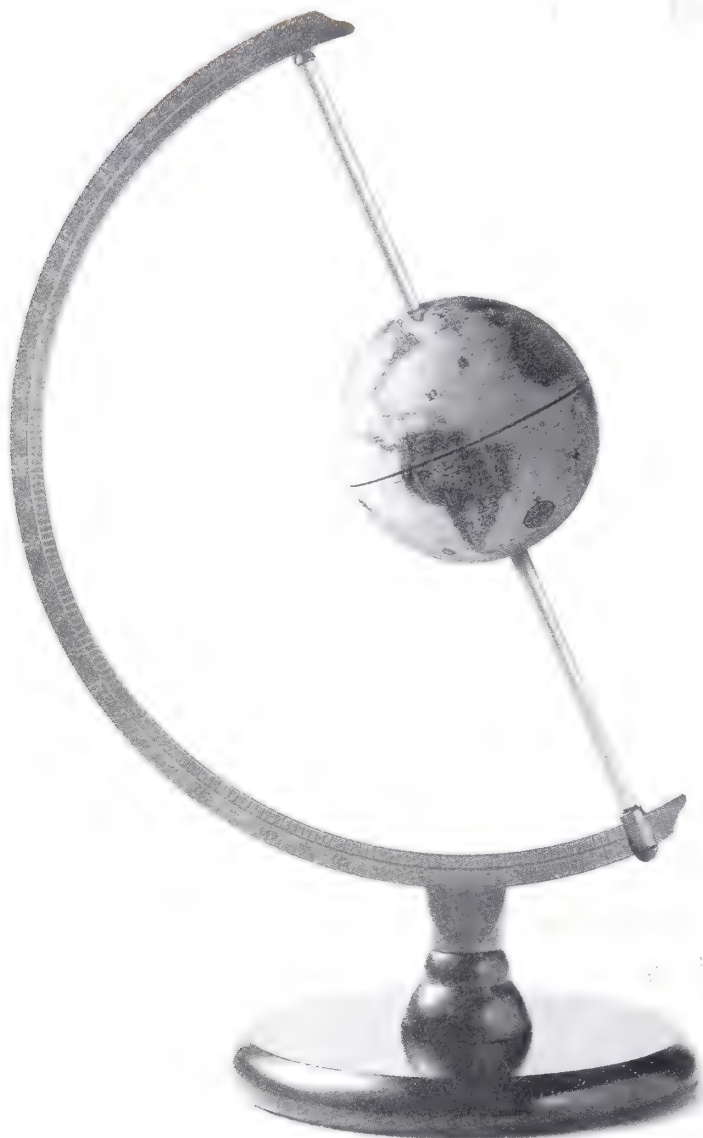
EXCELLENCE IN COLLEGE PREP
SINCE 1907

- Honor JROTC school with distinction
- Safe, structured, all boys boarding
Environment
- Grades 7/12, full accredited, small classes,
Weekly report cards
- Promotes leadership, self-confidence, and
Manners



- Computer in every dorm room
- Full athletic program
- Band, Fine Arts, and Aviation
- Affordable Tuition
- Located on Lake Lanier in North GA
- www.cadet.com

FOR MORE INFORMATION CALL 1-800-GO-CADET



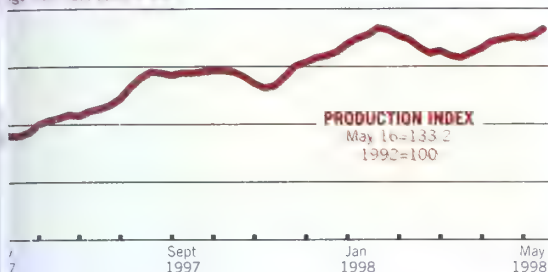
**HAS THE WORLD GOTTEN SMALLER,
OR IS IT THAT WE'VE JUST GOTTEN BIGGER?**

The St Paul

Business Week Index

PRODUCTION INDEX

Change from last week: 0.5%
Change from last year: 7.4%



The production index was up for the third week in a row. The unaveraged index rose to 133.9 from 133.7. Seasonally adjusted output of electric power rose 1.2%, with an increase of 8.5% in the southeast and 7.6% in the industrial region. Autos, trucks, oil, and lumber also posted gains. Steel was down 2.3%, with a capacity utilization rate of only 88.8%. The index has been in nine weeks. Rail freight and coal production also dipped.

Source: Index copyright 1998 by The McGraw-Hill Companies

FINANCIAL INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
PRICES (5/22) S&P 500	1110.47	1108.73	31.1
GOVERNMENT BOND YIELD, Aaa (5/22)	6.69%	6.74%	-12.0
M2 SUPPLY (5/11) billions	\$4,154.3	\$4,160.8r	6.9
CLAIMS, UNEMPLOYMENT (5/16) thous.	313	305r	-2.5
CREDIT APPLICATIONS, PURCHASE (5/22)	248.1	254.8	29.8
CREDIT APPLICATIONS, REFINANCE (5/22)	1,049.0	1,138.7	222.7

Source: Standard & Poor's, Moody's, Federal Reserve, Labor Dept., Mortgage Bankers Assn. (Index: March 16, 1990=100)

BEST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
MUTUAL FUNDS (5/26)	5.62%	5.35%	5.59%
GOVERNMENT PAPER (5/26) 3-month	5.50	5.51	5.67
RATES OF DEPOSIT (5/27) 3-month	5.59	5.59	5.69
MORTGAGE (5/22) 30-year	7.15	7.22	8.08
ADJUSTABLE MORTGAGE (5/22) one-year	5.79	5.87	6.01
REVERSE MORTGAGE (5/22)	8.50	8.50	8.50

Source: Federal Reserve, HSH Associates, Bloomberg Financial Markets

1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

THE WEEK AHEAD

CONSUMER SURVEY

June 1, 10 a.m. EDT ▶ The National Association of Purchasing Management's likely unchanged in May from 2.9% reading. That's according to a forecast of economists surveyed by Standard & Poor's MMS, a division of The Hill Companies. The purchasers' index is the most immediate reading of health of the industrial sector.

CONSTRUCTION SPENDING

June 1, 10 a.m. EDT ▶ Building construction spending increased 0.4% in April, up from 0.5% in March. Nonresidential construction has been weak in recent

LEADING INDICATORS

Tuesday, June 2, 10 a.m. EDT ▶ The Conference Board's composite index of leading indicators was likely unchanged in April, after rising 0.2% in March.

NEW HOME SALES

Tuesday, June 2, 10 a.m. EDT ▶ New single-family homes probably sold at an annual rate of 835,000 in April, up from a 828,000 pace in March. That's suggested by the increase in current sales reported in a national survey of homebuilders.

FACTORY INVENTORIES

Thursday, June 4, 10 a.m. EDT ▶ Manufacturers probably saw no change in their

inventories in April, after stock levels rose by 0.2% in March.

EMPLOYMENT

Friday, June 5, 8:30 a.m. EDT ▶ The S&P MMS median forecast projects that nonfarm payrolls increased by a solid 225,000 new jobs in May. Payrolls increased by 262,000 in April. However, the unemployment rate likely edged back up to 4.4% in May, from 4.3% in April.

INSTALLMENT CREDIT

Friday, June 5, 3 p.m. EDT ▶ Consumers likely added \$4 billion in new debt in April, says the S&P MMS survey. Credit rose only \$1 billion in March.

PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (5/23) thous. of net tons	2,160	2,135#	0.9
AUTOS (5/23) units	119,451	121,869#	-4.2
TRUCKS (5/23) units	127,648	153,666#	0.3
ELECTRIC POWER (5/23) millions of kilowatt-hrs.	NA	60,832#	NA
CRUDE-OIL REFINING (5/23) thous. of bbl./day	NA	15,034#	NA
COAL (5/16) thous. of net tons	21,341#	21,487	-1.4
LUMBER (5/16) millions of ft.	467.6#	459.5	-6.9
RAIL FREIGHT (5/16) billions of ton-miles	27.4#	27.3	4.2

Sources: American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, American Petroleum Institute, Energy Dept., WWPAl, SFPAl, Association of American Railroads

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (5/27) \$/troy oz.	292.750	299.600	-14.6
STEEL SCRAP (5/26) #1 heavy, \$/ton	135.50	135.50	0.7
COPPER (5/22) ¢/lb.	78.6	81.6	-34.4
ALUMINUM (5/22) ¢/lb.	65.8	66.5	-17.5
COTTON (5/23) strict low middling 1-1/16 in., ¢/lb.	65.53	64.73	-5.7
OIL (5/26) \$/bbl.	14.67	12.74	-28.3
CRB FOODSTUFFS (5/26) 1967=100	239.11	240.35	0.7
CRB RAW INDUSTRIALS (5/26) 1967=100	304.51	305.35	-9.9

Sources: London Wednesday final setting, Chicago market, Metals Week, Memphis market, NYMEX, Commodity Research Bureau

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (5/27)	137.50	135.79	115.80
GERMAN MARK (5/27)	1.78	1.77	1.70
BRITISH POUND (5/27)	1.63	1.63	1.64
FRENCH FRANC (5/27)	5.98	5.94	5.76
ITALIAN LIRA (5/27)	1758.1	1746.0	1690.0
CANADIAN DOLLAR (5/27)	1.46	1.45	1.38
MEXICAN PESO (5/27)	8.870	8.640	7.904
TRADE-WEIGHTED DOLLAR INDEX (5/27)	112.2	111.3	103.1

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars. Trade-weighted dollar via J.P. Morgan.

This Week, Online

Business Week presents frequent live conferences and chats on America Online—your opportunity to ask questions about timely topics.

ONLINE
BusinessWeek

Sunday

To celebrate National Small Business Week, SBA chief Aida Alvarez talks about the theme of the week: how high tech can help small business. The event is sponsored by BW Enterprise and AOL's WorkPlace Weekend. **May 31**

9 p.m. EDT in the Odeon

Thursday

How do you spot value in international stocks? David Herro, manager of Oakmark International Fund, has answers for his portfolio—and for yours. **June 4**

9 p.m. EDT in BW Online's Conference Room

AOL keyword: BW Talk

Transcripts of all conferences are available for downloading from the BW Online area on AOL soon after each event

Index to Companies

This index gives the starting page for a story or feature with a significant reference to a company. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

A

Aetna (AET) 38
AlliedSignal (ALD) 90
Amgen (AMGN) 118
Applied Materials (AMAT) 46
AT&T 114
AT&T 6
ATA Research 120
AutoNation USA (RII) 42

B

BankAmerica (BAC) 46, 115
BankBoston (BKB) 46
Bank of Montreal 75
Barclays Capital 116
Barclay Trading Group 120
Barringer Asset Management 60
Bear Stearns (BSC) 8
Bell Atlantic (BEL) 38
Berkshire Hathaway (BRK) 90, 112
Bionutrics (BNRX) 42
BMW 84
Boeing (BA) 38, 46
BOLDER Technologies (BOLD) 118
Boston Consulting Group 90
Boston Red Sox 110
Branch Cabell 118
Brown & Brown 122
Brush (D.H.) 75
Bulova Watch (LTR) 112

C

Caldor 46
California Managed Accounts 120
Campbell 120
Canadian Business 37
Canadian Living 37
Cannondale (BIKE) 123
Casio 18
CEI Corp 46
Chiron (CHIR) 118
Chrysler (C) 42, 84
Cineplex Odeon 75
Cinven 116
Cipher Logics 72
Citicorp (CCI) 26, 72, 110, 115
CNA Insurance 112
Coca-Cola (KO) 58, 77, 90
Cohasset Associates 72
Columbine Ventures Fund 118
Comcast (CMCSK) 6
Compaq Computer (CPQ) 46
Computer Forensics 72
Conference Board 31, 127
Cox Communications (COX) 6
CPM Metal Group 6
Credit Suisse First Boston 46, 116
CVC 116
Danone 77

D

Dell Computer (DELL) 6, 46
Deloitte & Touche 77, 114
Delta Express (DAL) 39
Deutsche Morgan Grenfell 116
Diamond Offshore Drilling (DO) 112
Diebold (DBD) 46
Digital Equipment (DEC) 13, 46
Di Tommaso Group 120
Dominion Capital Advisors 112
Donaldson Lufkin & Jenrette 8, 116
Dong Ah Group 52
Dow Jones (DJ) 90
DreamWorks SKG 75
Dresdner Bank 46
Dresdner Kleinwort Benson 62

E

Eastman Kodak (EK) 13
Eckhardt Trading 120
Entergy (ETR) 46
Equity Advisory 118
Everex Systems 18

F

Fidelity Investments 122
Financial Post 37
First Marathon Securities 114
Forbo Forshaga 77
Ford (F) 42, 84
France Telecom 77
Frontier (FRO) 6
Fuji Photo Film 13

G

Gateway 2000 (GTW) 46
GE Capital (GE) 75
Genentech (GNE) 118
General Electric (GE) 72, 90, 110, 130
General Motors (GM) 42, 84, 86, 90
Gerard Klauer Mattison 75
Goldman Sachs 116, 120
Gordon & Polster 72
Griffiths McBurney 114
GT Bicycles 123

H

Han Young 36
Hewlett-Packard (HWP) 77
Hicks Muse Tate & Furst 46
HMV Media Group 116
Hyundai Group 36

I

IBM (IBM) 46
ICE Theaters 75
ICG Communications (ICGX) 6
ICOS (ICOS) 118
IMS America 42
Indofood 58
ING Barings 116
Inner City Entertainment 75
Intel (INTC) 46, 90

Intergraph 46
Intermedia 6
International Data 72
ISL Marketing 77

J

Johnson & Johnson (JNJ) 42
Johnson Controls (JCI) 118

K

Kinnard (John G.) 118
Kirch 77
Koninklijke KNP BT 116
K2 123

L

Lehman Brothers (LEH) 120
Lockheed Martin (LMT) 72
Loews (LTR) 112
Longines-Wittnauer Watch 77
Lord & Taylor 46
Lorillard Tobacco (LTR) 112

M

Maclean's 37
Magic Johnson Theaters 75
Major League Soccer 77
Manpower (MAN) 31
Manufacturer American Science 8
May Department Stores (MAI) 46
Maytag (MYG) 34
McDonald's (MCD) 75, 77
McGraw-Hill (MHP) 127
MCI Communications (MCIC) 12
McKinsey 90
Mercedes-Benz (DAI) 84
Merck (MRK) 42
Merrill Lynch (MER) 46, 72, 116
Microsoft (MSFT) 6, 18, 72, 90
Microvision (MVIS) 68
Morgan Stanley Dean Witter (MWD) 8, 26, 72, 116
Mytec Technologies 68

N

National Amusements 75
National Record Mart (NRM) 118
NationsBank (NB) 13, 46, 115
Netscape Communications (NSCP) 6
New York Times (NYT) 37
Nike (NKE) 75
Northern Trust (NTRS) 26
Northwest Airlines (NWAC) 51
Novartis 42
NTL 116

P

Packaged Facts 42
PaineWebber (PWJ) 39, 40, 46, 60
Palmax Technology 18
Pfizer (PFE) 44, 118
Pharmax 42
Philips Electronics (PHG) 18
Power (J.D.) 84
Pratecs Technologies 114
Premier Laser (PLSI) 44
Prudential Insurance 72

Q

Quark 13

R

Raisio 42
Reebok Sports Club/N
Renaissance Worldwide (REGI) 6
Restaurant Associates
RJR Nabisco (RN) 75
Roberts Roach 39
Robertson Stephens (R)

S

Salomon Smith Barney (TRV) 13
Saturday Night 37
SBC Warburg 116
Schein (Henry) (HSIC)
Schwab (Charles) (SC)
SciClone Pharmaceuticals
Shimano 123
Shuttle by United (UA)
SmithKline Beecham
Sony (SNE) 75
Southern Mills 34
South Shore Bank 75
Southwest Airlines (L)
Sports Illustrated (TW)
Sprint (FON) 6, 72
Standard & Poor's M
(MHP) 127
Sun Microsystems (S)

T

Tele-Communications (TCOMA) 6
Televisa 77
3Com (COMS) 18
Time (TWX) 37
Toyota (TOYOY) 84
Travelers Group (TRV)
Trek 123
TRW (TRW) 13
Tyco International (T)

U

United Airlines (UAL)
US Airways (U) 39
U.S. Surgical (USS)

V

Val Verde Vegetable
Volkswagen 84

W

Wall Street Journal
Wal-Mart Stores (W)
Walt Disney (DIS) 9
Warner-Lambert (W)
Watson Wyatt 26
Wherehouse
Entertainment 11
Woman's Day 37
WorldCom (WCOM)

Y

YBM Magnex Internat

Z

Zipp Speed Weapon 12
Zurich Group 26

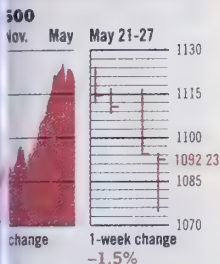
For a free trial diskette including 50 free hours on AOL, call 1-800-641-4848 and mention Business Week



Executive, Circulation, and Advertising Offices: 1221 Avenue of the Americas, New York, N.Y. 10020 U.S. subscriber rate \$54.95/year; \$69.95/year. Postage paid at New York, N.Y., and at additional mailing offices. Postage paid at Montreal, P.Q. Canada Post International Mail Product Sales Agreement No. 246484. Postmaster: Send address changes to BUSINESS WEEK, P.O. Box 430, Hightstown, N.J. 08520.

Investment Figures of the Week

KS



NTARY

to your hats! Concerns about Asia's economic crisis hurt the earnings of U.S. firms sent the Dow Jones Industrial Average plunging points, or 1.6%, on May 21. It was the Dow's worst day since Jan. 9. After dropping as much as 175 points that day, the market retreated to close down just 27.2 at 8936.6. Big losers were Intel and Bankers Life. The bond market was mixed: A flight to quality yielded on the 30-year bond to 5.84%, down 14% a week ago.

U.S. MARKETS

	Latest	% change Week	% change Year
Dow Jones Industrials	8936.6	-2.6	21.5
NASDAQ Combined Composite	1781.1	-2.8	26.3
S&P MidCap 400	354.9	-3.3	28.0
S&P SmallCap 600	188.4	-3.7	22.5
S&P SuperComposite 1500	233.0	-2.5	28.6

SECTORS

	Latest	% change Week	% change Year
Bloomberg Information Age	335.0	-2.3	25.2
S&P Financials	131.2	-3.4	40.5
S&P Utilities	232.0	-1.6	21.0
PSE Technology	333.2	-4.3	16.2

FOREIGN MARKETS

	Latest	% change Week	% change Year
London (FT-SE 100)	5870.2	-0.6	25.5
Frankfurt (DAX)	5490.6	-0.4	51.0
Tokyo (NIKKEI 225)	15,664.3	0.1	-23.0
Hong Kong (Hang Seng)	8983.4	-5.9	-38.3
Toronto (TSE 300)	7542.9	-2.0	18.1
Mexico City (IPC)	4480.4	-2.8	14.7

FUNDAMENTALS

	Latest	Week ago	Year ago
S&P 500 Dividend Yield	1.42%	1.41%	1.75%
S&P 500 P/E Ratio (Last 12 mos.)	26.0	26.4	21.4
S&P 500 P/E Ratio (Next 12 mos.)*	21.3	21.6	17.6
First Call Earnings Revision*	-0.63%	-1.20%	-0.73%

TECHNICAL INDICATORS

	Latest	Week ago	Reading
S&P 500 200-day average	999.7	996.6	Positive
Stocks above 200-day average	50.0%	55.0%	Neutral
Options: Put/call ratio	0.60	0.59	Neutral
Insiders: Vickers Sell/buy ratio	2.71	2.71	Negative

Data: Bloomberg Financial Markets; *First Call Corp.

BEST-PERFORMING GROUPS

	Last month%	Last 12 months%
Automobiles	17.2	Specialty Appr. Retailers 100.4
Specialty Appr. Retailers	12.3	Broadcasting 83.3
Restaurants	9.5	Automobiles 71.3
Genl. Merchandise Chains	9.0	Personal Loans 69.3
Department Stores	7.9	Genl. Merchandise Chains 66.0

WORST-PERFORMING GROUPS

	Last month%	Last 12 months%
Gold Mining	-14.8	Metals -41.3
Oil & Gas Drilling	-12.0	Gold Mining -28.9
Metals	-11.0	Shoes -22.4
Oil Exploration & Prod.	-9.4	Photography/Imaging -18.9
Manufactured Housing	-8.9	Engineering & Constr. -18.2

BLOOMBERG MONEY FLOW ANALYSIS

Rebound ahead? Stocks with most significant buying on price weakness

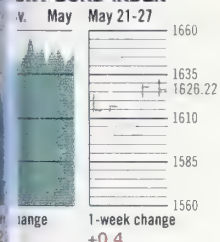
	Price	1-month change
Intel	74 11/16	-5 5/16
Hewlett-Packard	65 3/8	-7 7/8
Mellon Bank	67	-4 5/16
Gateway 2000	44 1/2	-13 3/16
AT&T	59 11/16	-1 13/16
Xilinx	42	-4 11/16

Decline ahead? Stocks with most significant selling on price strength

	Price	1-month change
Dell Computer	83 15/16	9 5/8
WorldCom	45 3/4	2 3/8
Cisco Systems	76	5 5/16
Washington Mutual	72 3/4	3 3/16
Abbott Laboratories	74 7/8	3 1/2
Travelers Group	62 3/4	1 1/2

EST RATES

DURY BOND INDEX



KEY RATES

	Latest week%	Week ago%	Year ago%
MONEY MARKET FUNDS	5.10	5.10	5.14
90-DAY TREASURY BILLS	5.08	5.23	5.18
6-MONTH BANK CDS	5.08	5.08	5.23
1-YEAR TREASURY BILLS	5.41	5.45	5.91
10-YEAR TREASURY NOTES	5.58	5.65	6.80
30-YEAR TREASURY BONDS	5.84	5.94	7.03
LONG-TERM AA INDUSTRIALS	6.41	6.51	7.56
LONG-TERM BBB INDUSTRIALS	6.85	6.93	7.93
LONG-TERM AA TELEPHONES	6.69	6.77	7.78

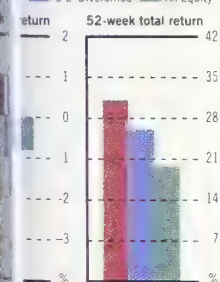
BLOOMBERG MUNI YIELD EQUIVALENTS

Taxable equivalent yields on AAA-rated, tax-exempt municipal bonds, assuming a 31% federal tax rate.

	10-yr. bond Latest week	Last week	30-yr. bond Latest week	Last week
GENERAL OBLIGATIONS	4.45%	4.46%	4.98%	5.03%
PERCENT OF TREASURIES	79.88	79.47	85.28	85.30
TAXABLE EQUIVALENT	6.45	6.46	7.22	7.29
INSURED REVENUE BONDS	4.57	4.58	5.17	5.19
PERCENT OF TREASURIES	82.03	81.60	88.53	88.01
TAXABLE EQUIVALENT	6.62	6.64	7.49	7.52

L FUNDS

U.S. Diversified All Equity



EQUITY FUNDS

Leaders	Four-week total return	%	Laggards	Four-week total return	%
IAI Value	28.1		Lexington Troika Russia	-33.6	
Fidelity Germany	10.5		Matthews Korea I	-19.0	
Waddell & Reed Intl. Gr. B	9.4		Govett Latin America A	-16.6	
Smith Barney European A	9.2		Fidelity Latin America	-15.3	
IAI Balanced	8.9		Excelsior Latin America	-14.9	
Leaders	52-week total return	%	Laggards	52-week total return	%
FMI Focus	69.7		Matthews Korea I	-65.0	
Munder Micro-Cap Equity Y	66.4		U.S. Global Investors Gold	-57.6	
Weitz Hickory	64.9		Lex. Crosby Sm. Cap Asia	-56.2	
Fidelity Select Brokerage	62.1		Morg. Stan. Inst. Asia Eq. A	-54.5	
IAI Value	61.4		Morgan Stan. Asian Grth. C	-54.5	

EQUITY FUND CATEGORIES

Leaders	Four-week total return	%	Laggards	Four-week total return	%
Europe	5.4		Latin America	-13.3	
Foreign	3.4		Precious Metals	-10.6	
World	1.7		Diversified Emerging Mkts.	-9.5	
International Hybrid	0.9		Pacific/Asia ex-Japan	-8.8	
Large-cap Value	0.7		Diversified Pacific/Asia	-5.6	
Leaders	52-week total return	%	Laggards	52-week total return	%
Financial	42.3		Pacific/Asia ex-Japan	-40.9	
Communications	39.4		Diversified Pacific/Asia	-33.5	
Europe	35.4		Precious Metals	-32.8	
Large-cap Growth	29.3		Japan	-22.2	
Large-cap Blend	27.8		Diversified Emerging Mkts.	-19.3	

of market close Wednesday, May 27, 1998, unless otherwise indicated. Industry S&P 500 companies only. Fundamentals, technical indicators, Bloomberg mon-

ey flow analysis, and mutual fund returns are as of May 26. For a more detailed explanation, write to us or E-mail figures@businessweek.com. NA=Not available **Vanguard Index 500 Fund

GOING BACKWARD IN ASIA

Nearly a year into the Asian crisis, economic reform has barely begun, and the penalty is near-depression. Korea's gross domestic product contracted by nearly 4% in the first quarter. Thailand's recession will shrink the economy by 6% by yearend. Indonesia is in chaos. Hong Kong is near recession. And Japan remains stalled out. The realization that Asia has shifted from a financial crisis to a deep economic downturn is slamming stocks around the world, from Seoul to Moscow. Just five months ago, the markets were celebrating the quick recovery in Asia. Now, a second wave of Pacific Rim market declines is washing over the global economy. Recovery is now two to three years away.

Or more. Japan is seven years into its recession. Korea, which copied Japan's dirigiste strategies to success, appears ready to follow the same policies into decline. The *chaebol* are battling the government's demands to sell off operations, slim down, and release the economy from their grip. Korean companies, which totally depend on foreign markets, continue to block access to their own. Korean banks keep lending failing *chaebol* money, delaying their own reform. The jobless rate is soaring as Korean workers are fired, and people are taking to the streets. Japan is making matters much worse by letting the yen sink toward 150 to the dollar. At this level, Korean exports become much less competitive, profits evaporate, and the *chaebol* put pressure on the government for a competitive devaluation. Once the won goes, China will find it difficult not to devalue the renminbi. The cycle of competitive devaluations in Asia will begin all over again.

Asia urgently needs recapitalization to stop this desperate plunge toward depression. But without serious structural reform that opens up economies, breaks up monopolies, and establishes modern, crony-free banking systems, nothing will help. The world economy is now at risk.

MANAGEMENT 101: MOTIVATION MATTERS

It's no secret that General Electric is one of the world's most successful companies in the world. Its market value has gone from \$12 billion in 1981 to \$284 billion today. At a time when corporations are focusing on core competencies, GE has succeeded as a conglomerate with very old-fashioned businesses—leasing, locomotives, lighting, TV. So what is it that accounts for such incredible performance?

BUSINESS WEEK followed GE's CEO, Jack Welch, around for months for clues. To its surprise, the magazine discovered that charisma still counts. The force of one person's personality at the top can generate uncanny returns at the bottom line.

Clearly, Welch's strength is his mastery in motivating peo-

ple. Welch painstakingly reviews the performance of company's top 3,000 managers every year. He personally hands out hundreds of bonuses for good work. He is constantly writing notes to managers and employees, suggesting changes, thanking them, making note of family crises.

Welch also teaches at GE's training center, in front of a audience of elite managers, lecturing them, cajoling, and listening. Four-hour performances aren't unusual. In 17 years, Welch taught some 15,000 GE managers and executives (page 10). Welch's in-your-face candor defines GE's corporate culture. It demands it from his executives and returns it. This confrontational conversation is a terrific, if terrifying, way to generate ideas and curb bureaucratic obfuscation. There is little session-by-committee at GE. Welch's message to his managers is brutal as well: Cull the weak, compete for No. 1, and stop making excuses for not meeting targets. When managers meet goals, Welch showers them with gratitude—and rewards.

Losers, however, get fired. The stick is the other side of the Welch motivation machine. Bad performance is severely punished. And Welch keeps track. Even in the best-recessionary eras, he insists on a steady flow of information, and provides a continuous supply of suggestions. It's micromanagement, and despite B-school dogma, it works. In an era of management fads, from mass customization to value chain analysis, the lesson from GE is that personality still counts.

DON'T GO SPENDING THAT SURPLUS

Some opportunities knock only once in a generation. The U.S. budget surplus is one of them. This year's federal surplus is likely to approach \$40 billion to \$60 billion, thanks to a strong economy and an even stronger stock market. Even factoring in a business-cycle dip or two, a total surplus of about \$1.5 trillion over the next 10 years is possible. Alas, that much cash can't accumulate in Washington without drawing a crowd of spenders. So the capital is abused by politicians asking: What should we do with the surplus?

Our answer: save it, don't spend it. Politicians face a overwhelming temptation to buy votes. Washington has many ways to save a surplus. The simplest is to do nothing. The Treasury start paying down the \$5.5 trillion national debt. That would lower interest rates and promote growth. Sound financial virtue, however, offers no political reward, and Congress will probably not show this kind of self-restraint.

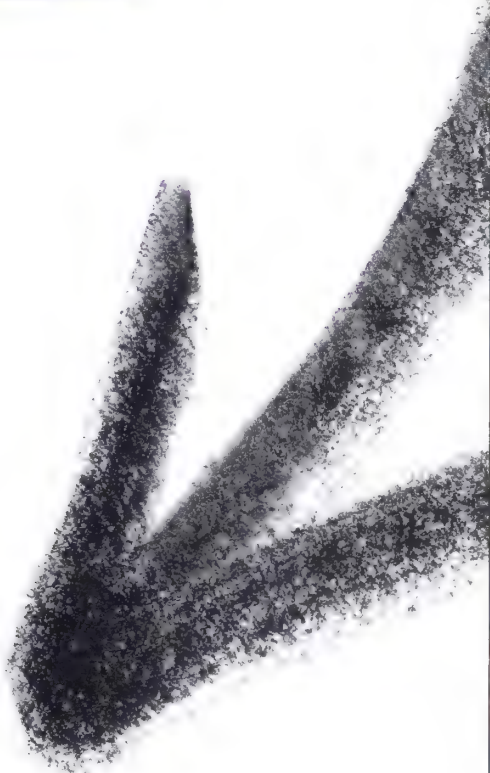
The second way to save is to bolster the wobbly Social Security system. The government could invest the surplus in stocks and bonds, earmarking the returns for Social Security. But that raises the disquieting prospect of Washington spending a growing slice of Corporate America.

The other option is to give the surplus back to U.S. taxpayers in the form of personal savings accounts. We could invest in mutual funds for retirement. The U.S. could pay down 27% of its national debt or help the Social Security system as the baby boomers retire. Nice choice. Save the sur-



TIBCO software connects all your applications, databases and networks. You become a global, real-time, event-driven enterprise. (Over 500 of the world's leading corporations are.) You know instantly the relevant events that drive your business. Your business processes are integrated for smarter, faster decisions. You reduce cycle times. You deliver customer service at the highest level. You win.

And yes, that is rather fortunate for your enterprise.



 **TIBCO**
www.tibco.com

NEW YORK CHICAGO BOSTON HOUSTON PALO ALTO TORONTO WASHINGTON D.C. LONDON AMSTERDAM COPENHAGEN
STOCKHOLM FRANKFURT LUXEMBURG VIENNA ZÜRICH MELBOURNE SYDNEY HONG KONG SINGAPORE TOKYO

© 1998 TIBCO All rights reserved

\$3.95

940
 BURLINGAME PUBLIC LIBRARY
 480 PRIMROSE RD
 BURLINGAME CA
 940

PAGE 84

WHERE TO INVEST

The Search for Value

Best Bets in: Stocks | Bonds
Mutual Funds | Real Estate
Commodity Markets | and more



The world's best-selling servers.



ENTERPRISE SERVER
PROLIANT 7000 SERVER
STARTING AT **\$16,080***



ENTERPRISE SERVER
PROLIANT 6500 SERVER
STARTING AT **\$13,807***



ENTERPRISE SERVER
PROLIANT 5500 SERVER
STARTING AT **\$7,386**

Thousands of businesses trust their mission-critical data to SAP. Who does SAP trust?

Over half of SAP's™ R/3™ installations running Windows NT® run on Compaq servers. That's twice the number of installations of any other Windows NT-based hardware provider. And no surprise why. Because SAP develops and tests their software on Compaq platforms – a partnership designed to assure you maximum performance, reliability and easy implementation. Industry-standard platforms bundled with SAP solutions are one way we make sure that the best ideas always reach you. To learn more, visit our website or call for a reseller near you.

1-800-319-7778 www.compaq.com/solutions

Microsoft, Windows NT and R/3 are trademarks of SAP AG. Windows NT is a registered trademark of Microsoft Corporation. © 1998 Compaq Computer Corporation. SAP and R/3 are trademarks of SAP AG. Windows NT is a registered trademark of Microsoft Corporation.

The Compaq logo, featuring the word "COMPAQ" in a bold, italicized, sans-serif font, with a stylized "Q" that has a horizontal bar. The logo is white and set against a solid red rectangular background.

WHERE TO INVEST: THE SEARCH FOR VALUE

A special mid-
guide to the best
bets in stocks,
bonds, mutual
funds, and more

page 84



BEYOND
Marketers
"personal
dialogue"

BusinessWeek

JUNE 15, 1998

Cover Story

84 THE SEARCH FOR VALUE

Stocks and other investments have been picked over—but not picked clean. You just have to know where to look

86 THERE ARE PLENTY OF CHEAP STOCKS

The bull run affects mainly the Nifty 50

88 HOW TO CATCH A MERGER WAVE

Pick fields where deals are happening

90 SAVE THOSE TECH STOCKS

Analysts say they will rise again

94 PLACING A BET ON BIOTECH

How pros play the cycles of drug R&D

96 SHORTING A BULL MARKET

The savvy cash in on overvalued stocks

98 A BIT OF COMFORT IN REAL ESTATE

There's reliable long-term income

100 EUROPE IS A BRIGHT SPOT

It looks like a haven in the global storm

106 LOWER HORIZONS FOR BONDS

Most experts forecast falling rates

108 SQUEAKING PAST THE INDEX FUNDS

Yes, a few mutuals have found a way

111 HEDGING YOUR NEST EGG

"Put options" pay when the market falls

112 A POLL OF INVESTORS

Not many anticipate a market crash

114 INSIDE WALL STREET

News: Analysis & Commentary

38 A WORLD OF HURT

Asia is sinking. Commodity prices are collapsing. Russia's economy is lurching. And the West seems unable to do much about it

41 RUSSIA'S ZERO HOUR

With fiscal collapse getting closer, will the IMF bail out Yeltsin?

42 EUROPE'S WINNING ECONOMY

At long last, things are picking up smartly

44 COMMODITIES: A WARNING SIGN?

The potential for a slowdown that affects the West is growing

46 COMMENTARY: INTEL'S BEST HOPE

Why the chipmaker should try to settle an FTC suit

48 THE REAL WAR AGAINST MICROSOFT

Justice Dept. lawyers look beyond Win98 to Windows NT

50 HOW MUCH DOES WIN98 COST?

Some say Microsoft is hiking prices

50 AN EXODUS AT DISNEY

Top execs are leaving awfully fast

51 COMMENTARY: SPRINT'S NEW VS

Don't phone home

53 IN BUSINESS THIS WEEK

International Business

56 INDONESIA

The multinationals face the post-nightmarish post-Suharto legacy

58 A TALK WITH TOYOTA'S OKUDA

He plans to surpass Ford as No. 2 auto maker

60 TRUSTBUSTERS

The EU's hard line on high tech

63 INTERNATIONAL OUTLOOK

Asian nukes: Diplomacy isn't

Economic Analysis

27 ECONOMIC VIEWPOINT

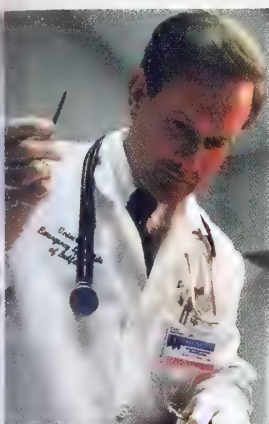
Garten: Keep China policy on target

30 ECONOMIC TRENDS

Why wives work, rewards of homeownership, profits may

35 BUSINESS OUTLOOK

U.S.: Profit forecasts could be



GLOBAL FLU?

Asia's ills are spreading—and the IMF is running out of options

page 38



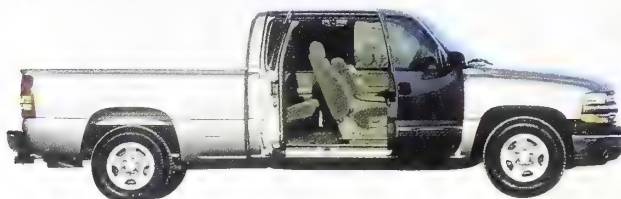
WEB FEAT

Quicken is no longer the main event at the new

Intuit page 123

LIGHTS, CAMERA, TRACTION?

GM's pickups may redeem its bad rep for new launches page 75



HMOs
balance tips
card care
providers page 68

ERRY'S BUCKS
shows are not
tly—they're
fitable page 120

Government

WASHINGTON OUTLOOK

Obama aimed at Big Labor backfires
GOP

DEAL WITH THE TEAMSTERS?

The Teamsters' election-finance
could tar the Democrats

Sports Business

FOOTBALL LEAGUE? MAYBE

It doesn't seem crazy, but NBC and
might just make it work

Social Issues

INSURERS' REVENGE

Insurers and hospitals are beginning to
control from HMOs as insurers
move from managed care

Corporation

WHICH GM CAN'T AFFORD TO BLOW
its out all stops to ensure a smooth
launch for its new midsize pickups

BUCK, OLD DESIGN

Offering a fourth door leaves the
Sierra lacking

Marketing

115 DEAR E-OCCUPANT...

Marketers are discovering that
personalized E-mail pitches work

Entertainment

120 BARRY DILLER'S NEW DOMAIN

His TV-retail hookup could challenge the
big networks

Information Technology

26 TECHNOLOGY & YOU

A laptop that's cool but clumsy

123 THIS INTUIT HUNCH MAY PAY OFF

After a big setback, the maker of
Quicken takes to the Web

126 INSTANT MESSAGING, INSTANT CRAZE

So where's the payoff?

Science & Technology

128 SONY SHARPENS ITS GAME

PlayStation is a blockbuster, but can the
company make the grade in cyberspace?

132 DEVELOPMENTS TO WATCH

Two laser breakthroughs, a
cancer-fighting role for aspirin

Legal Affairs

134 BIG TOBACCO'S WAR ROOM

For years, a secret group of lawyers
mapped a strategy that led to disaster

Features

4 UP FRONT

10 EDITOR'S MEMO

10 READERS REPORT

15 CORRECTIONS & CLARIFICATIONS

22 BOOKS

Blumenthal: *The Invisible Wall:
Germans and Jews: A Personal
Exploration*

141 BUSINESS WEEK INDEX

142 INDEX TO COMPANIES

143 INVESTMENT FIGURES OF THE WEEK

144 EDITORIALS

Rethink the Asian bailout
Where have all the profits gone?

BusinessWeek **ONLINE**

businessweek.com

America Online: Keyword: BW

Up Front

EDITED BY ROBERT McNATT

EXECUTIVE PERKS

HE'S GOTTA HAVE HEARTH

WHEN SANDY WEILL RETURNS from Tokyo, where he just bought 25% of Nikko Securities, his new fireplace may be ready for him. You see, Weill—CEO of Travelers and co-CEO of Citigroup after Travelers' merger with Citicorp—has this thing about fireplaces.

He's adding one to his new office at Citicorp Center in midtown Manhattan. Being the boss, or even the co-boss, does have its perks. John Reed, the Citicorp CEO who will run Citigroup with Weill, shouldn't worry about being one-upped, though. Weill says the



WEILL: Fire buff

fireplace is in a conference room—between his office and Reed's.

And how, you might ask, does one install a wood-burning fireplace and chimney inside a 59-story skyscraper? Weill says his office is on the top floor of a six-story, separate structure within the building, and that makes the logistics manageable.

Weill should know. This is the fifth fireplace he has built in New York buildings. He had one on the 106th floor of the World Trade Center at Shearson, at American Express, at Primerica, and at Travelers. Says

Weill: "Fireplaces are good luck." So far, his costly good luck charms seem to be working. *Leah Nathans Spiro*

D.C. FOLLIES

A FORCIBLE EVICTION FOR THE FCC?

SOMETIME SOON, THE FEDERAL Communications Commission may be surrendering in a 10-year guerrilla war that has lately proved something of an embarrassment for Vice-President Al Gore. The FCC has resisted attempts by the General Services Administration to move from downtown Washington to a new building, Portals II, in Southwest D.C. But now it looks like the FCC will have to raise the white flag and move to new digs far from downtown's amenities.

On May 29, the GSA, which oversees federal offices, said it would invoke the rarely used 1949 Federal Property Act to force the FCC into Portals, which is half-owned by Gore pal Franklin Haney. The GSA has canceled the FCC's existing leases.

Meanwhile, the Justice Dept. and a House committee are investigating whether developer Haney, who contributed to the Gore campaign, got a sweetheart deal on the \$400 million Portals lease. The GSA denies that he did.

If the GSA succeeds in uprooting the FCC, the move won't take place until October. But that's no problem for Haney. The government has already paid \$17 million in rent on the empty building since July. *Paula Dwyer*



TALK SHOW "C-h-i-a-r-o-s-c-u-r-i-s-t."

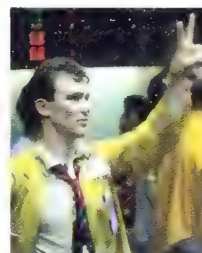
—Jody-Anne Maxwell, the new National Spelling Bee champion

CASINO SOCIETY

WHERE RUBLES RULE: CHICAGO

RUSSIA'S PAIN, AS IT TURNS out, is the MERC's gain. There's nothing better than volatility to spark action in the pits, and recent economic turmoil in Russia has done just that for the thinly traded ruble futures contract, launched Apr. 21 at the Chicago Mercantile Exchange.

Average daily contract volumes tripled, to 750, during the week ended May 29, when the ruble fluctuated 7% either way. About one-third of that volume came through Globex, the MERC's after-hours electronic exchange. More important, says MERC



THE PITS: Chaos means trading

Chairman Scott Gordon interest in ruble contract measure of market liquidity passed the 5,000 contract level on June 1. "The fund managers look at that threshold for liquidity," Gordon, meaning that

cent activity beget even more

After the can peso contract, for example, 5,000 level in 1995, it surged 10,000 by August. Currency Jim Oliff says he is giving more quotes

with the peso at the level: "Hedge funds and commodities trading advisors now taking a look." of the interest in the had previously come European bankers. Russia. *Andrew Oster*

DEEP THINKERS

SERIOUS ECONOMISTS GET SERIOUS MORE

IT'S CALLED THE DISMAL science. But for economists Avner Greif and Nancy Folbre, the rewards have been pretty good—\$265,000 and \$280,000, respectively.

Since 1981, only six economists have managed to win prestigious MacArthur fellowships, the "genius grants" given by the John D. & Catherine T. MacArthur Foundation. Now, for pioneering work outside the profession's mainstream, these two researchers have become Nos. 7 and 8.

Greif, 42, is an economic historian and game theorist at Stanford University who has used the arcane world of Maghrebi and Genoese traders in the 11th century to demonstrate how cultural,

social, and political factors play a big part in determining economic outcomes. Greif, 45, at the University of Massachusetts at Amherst, has done research on

nonmarket institutions, such as the paid care of children. Greif contributes to economic growth. Greif's yields, she says, better understand of the environment in which markets operate.

Greif also is nontraditional in his use of markets. Greif of neoclassical

economics is about the operation of market economies, he serves. "But we know about the process that led to the emergence of economies." That knowledge, he argues, may make better policies. *Karen*



GREIF: Grantee



"Cassie? Just exactly how much is my per diem?"

-Dexter Fedor, Field Sales Manager

Predictable monthly bills. Clear wireless calls.

Every big business struggles to keep costs predictable in an unpredictable world. So in addition to 100% digital call clarity, Sprint PCS has Flexible Business Plans and two new calling features designed to keep costs manageable. Home Rate USA,SM included for no extra charge, eliminates roaming charges anytime, anywhere, on our nationwide network. And Toll-Free USA,SM which gives you 1,000 minutes of clear wireless long-distance calls for an additional \$9.99 a month. To anywhere in the U.S. Anytime. Sprint PCS. The clear alternative to cellular.



1-888-509-6462 • www.sprintpcs.com/clear

Sprint PCSSM

SM Home Rate USASM and Toll-Free USASM may not be used in conjunction with certain other promotions or rate plans. Subject to business credit approval and withdrawal without notice. Home Rate USASM and Toll-Free USASM do not apply when roaming off the Sprint PCS Network. Under Toll-Free USASM, long-distance minutes in excess of 1,000 (500 minutes for Southern California and Nevada subscribers) will be \$10 a minute. Toll-Free USASM may be combined with Weekend or Off-Peak Option but will be billed at \$10 a minute. See Business Buyer's Guide materials for complete restrictions and limitations. ©2001 Sprint Spectrum L.P. All rights reserved. Sprint, Sprint PCS, Sprint Personal Communication Services and the diamond logo are trademarks of Sprint Communications Company L.P., used under license.

Up Front

SPORTS BIZ

SOCCER-SHOE SHOOTOUT

THE BIG BATTLE at the upcoming World Cup soccer tournament in France may not be between Brazil and Germany but between Nike and Adidas. In a marketing war worthy of a sudden-death overtime, those two shoe companies have spent millions of dollars on temporary "soccer parks" in the City of Light to showcase their products.

Nike's version is at the La Défense office complex, while Adidas is using the esplanade across the river from the Eiffel Tower. Among the free attractions: Adidas is bringing in retired German ace Franz Beckenbauer (under contract with Adidas), while Nike is



CANTONA:
Nike's man

showing off former French star Eric Cantona and the favored Brazilian team, signed to a 10-year, \$200 million contract.

Adidas, an official tournament sponsor, considers Nike a tasteless American interloper. The "Just Do It" company planned to put a huge version of its "Swoosh" logo on the Arche de la Défense, but local officials objected. It's settling for an oversize model of the Mercurial, its World Cup soccer shoe. Adidas, meanwhile, is launching a version of its Predator shoe for the Cup. No one is giving odds on this match so far.

William Echikson

VOX POPULI

WILL THE SWISS FREEZE GENE RESEARCH?

ON JUNE 7, SWISS VOTERS will go to the polls in a national referendum seeking to have the government "protect life and the environment against genetic manipulation." The prospect that the country might put the brakes on genetic research is throwing a scare into the biggest Swiss multinational pharmaceutical companies, Novartis and Roche Holding.

They believe that a "yes" vote would be a catastrophe. "This will paralyze crucial areas of biomedical research," says Fritz Gerber, chairman of Roche. Neither company will divulge how much it spends on genetic research, but analysts



HOT BUTTON: *Dolly*

believe that it amounts to billions of dollars. The drug companies have also hinted that if there is a "yes" vote, they might move more of their genetic research out of Switzerland.

Novartis and Roche already do most of their genetic research in the U.S. or the European Union. But the Swiss vote is the first time Europeans will cast ballots on the hot-button issue of genetic research. Most political analysts believe the initiative will fail. But shares of Novartis and Roche have been treading water in the past few weeks, a sign that the markets are apprehensive.

John Parry

DRAWN & QUARTERED



PRODUCT PEEK

YOU SCAN IT, YOU BUY IT

NOW THAT AHOLD HAS ADDED Giant Food supermarkets to its Finast and Stop & Shop chains, the Dutch company may soon introduce more Americans to a cool piece of consumer-friendly technology: handheld price scanners.

Ahold has high hopes for the gizmo in the U.S. How does it work? Shoppers pick up the device, which resembles a mobile phone, at the store. They then pass it over a product's bar code, tallying their bill as they go, and printing it out at the checkout, saving time. The store



GIZMO: *Quick*

keeps a list of customers using the scanners and random checks to make sure people scan every item.

The device seems to attract the big spender, according to Ahold stores and in Europe, where the scanner is common, great say customers with a

buy more because they can be faster. And which device and patent the system, testing the device at select

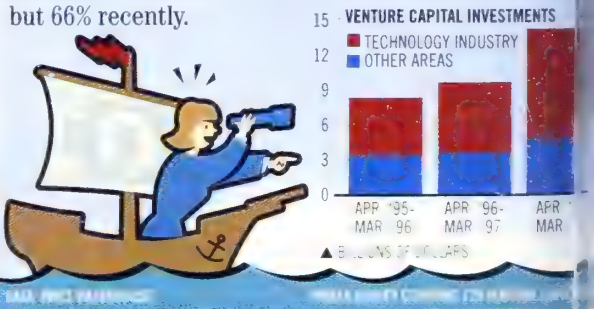
U.S. supermarkets. "When Americans will appreciate the system speeds up shopping," says a spokeswoman. And supermarkets, no doubt will appreciate how much they spend.

William Echikson

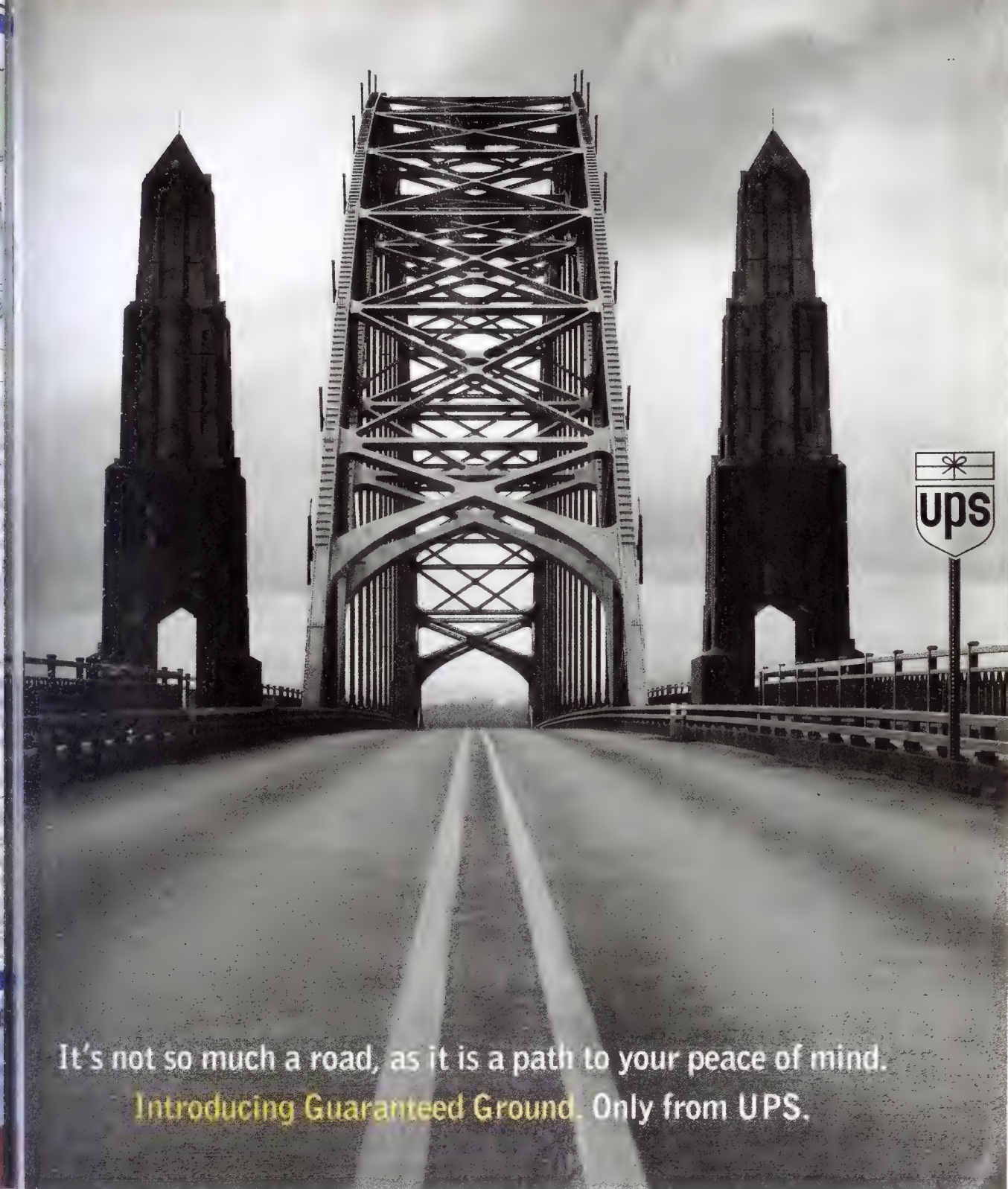
THE BIG PICTURE

SOMETHING VENTURED, SOMETHING GAINED

Venture-capital investment is booming, hitting a record \$3.7 billion in the first three months of the year. Technology companies accounted for 60% of investments two years ago but 66% recently.



FOOTNOTES Executives who deny thinking about quitting: 56%. Those who say they'll probably job-hunt within a year: 48%



It's not so much a road, as it is a path to your peace of mind.

Introducing Guaranteed Ground. Only from UPS.

UPS guarantees every ground package you send to any business address from coast to coast. Now you can be certain your shipment will arrive by the day it's promised—the precise day—or your money back. And when you consider the millions of packages we deliver every business day, you begin to understand just how much ground this guarantee really covers. Go to www.ups.com or call 1-800-PICK-UPS. MOVING at the SPEED of BUSINESS.



A full-page photograph of a camel standing on the crest of a sand dune. The camel is silhouetted against a bright, hazy sky at sunset or sunrise. The sand dune in the foreground has distinct, rhythmic ripples. The overall mood is serene and evokes a sense of timelessness.

WE TURNED A CENTURIES OLD IDEA
INTO A TWENTY-FIRST CENTURY INNOVATION.

**150,000 MILES WITHOUT STOPPING
TO CHANGE YOUR COOLANT.
ANOTHER FAR-REACHING IDEA FROM TEXACO.**

Until very recently, if you wanted the convenience of traveling great distances without changing your coolant, your vehicle would have to be the camel—a choice which would be quite impractical, say, for a commute on the freeway.

But thanks to the inspired thinking of scientists at Texaco, there's now a 150,000-mile coolant for cars. It's miles ahead of most conventional coolants because it lasts five times longer. In fact, it could very well last for the life of your car.

Our thirst for innovation doesn't stop there. We've also developed a system of coolants for trucks that's good for 600,000 miles, and we're working on fuels for the future that will help save energy and the environment by letting drivers travel unprecedented distances on a single tank of gasoline.

Although the noble camel has been around for centuries, we think it's got a lot of catching up to do. To find out more, stop by www.texaco.com. And see how our relentless pursuit of energy will keep the world running, in this century and centuries yet to come.



A WORLD OF ENERGY.

EDITOR-IN-CHIEF: Stephen B. Shepard

MANAGING EDITOR: Mark Morrison

CHIEF ECONOMIST: William Wolman

ASSISTANT MANAGING EDITORS:

Sarah Bartlett, Robert J. Dowling, G. David Wallace

ART DIRECTOR: Malcolm Frouman

CHIEF OF CORRESPONDENTS: James E. Ellis

SENIOR EDITORS: Bob Arnold (New Media), Frank J. Comes, William Glasgal, Geoff Lewis, Paul Raeburn, Kathy Rebello, Jane A. Sasseen, Ciro Scotti, Lee Walczak (Washington), Elizabeth Weiner, Chris Welles, Seymour Zucker

EDITORIAL PAGE EDITOR: Bruce Nussbaum

SENIOR WRITERS: Robert Barker, Anthony Bianco, John A. Byrne, Jeffrey M. Laderman, Gene G. Marcial, Karen Pennar, Otis Port, Gary Weiss

ECONOMICS: James C. Cooper (Sr. Economics/Bus. Outlook ed.), Kathleen Madigan, Michael J. Mandel (Economics ed.), Peter Coy Gene Koretz (Trends ed.), Christopher Farrell (Contributing ed.)

INTERNATIONAL: Christopher Power (Asian Edition ed.); Rose Brady (European Edition ed.); Duane E. Anderson, Pete Engardio, Joan Warner (Sr. news eds.); John Templeman (Political affairs); Sheri Prasso (Asia); John Pearson (Latin America); Kerry Capell (Finance)

ASSOCIATE EDITORS: Catherine Arnst, Aaron Bernstein, Dan Beucke, Amy Dunkin, Rick Green, Neil Gross, Keith H. Hammonds, Kelley Holland, Larry Light, Ira Sager, Leah Nathans Spiro, Fred Strasser, Pat Wechsler

PICTURE EDITOR: Lawrence Lippmann

SENIOR ART DIRECTOR: Francesca Messina

DEPARTMENT EDITORS: Books: Hardy Green; Corporations: Nanette Byrnes, I. Jeanne Dugan; Enterprise: Robin D. Schatz; Legal Affairs: Mike France; Management: Jennifer Reingold; Marketing: Ellen Neuborne

Markets & Investments: Suzanne Woolley; Money & Banking: Debra Sparks; People: Eric Schine; Personal Business: Edward C. Baig; Personal Finance: Todd Gutner; Scoreboards: Frederick F. Jespersen

Software: Amy Cortese; Technology Strategies: Marcia Stepanek; Telecommunications: Peter Elstrom; Up Front: Robert McNatt

STAFF EDITORS: Lori Bongiorno, Heather Green, Joan Oleck, Edith Eddie COPY EDITORS: Prudence Grouther, Barkly Maurer (Deputy chiefs); Marc Miller, Jim Taib (Asst. chiefs); Tim Belknap, Aleta Davies, Jack Robbins, Doug Royalty (Sr.); Giles Blunt, Joseph Magill, Anne Newman, David Penilly, Malka Percal, Lourdes Valenzuela; Researchers: Mana Chapin, Gail Fowler, Ada Rosario, Oluwabunmi Shabi

PRODUCTION COPY EDITORS: Lawrence Dark (Chief), Halberg Hallmundsson, Céline Keating, B. Kite, Robert S. Norman, Robert J. Rosenberg, Victoria Rubin

ART: Jay Petrow, Steven Taylor (Deputy dirs.); Don Besom, Alice Cheung, Andrée Kahlmorgen, Christine Silver (Asst.); Peter Marshutz (Asst.) Graphics & New Media: Arthur Eves (Creative dir.); Joan Danaher (Graphics dir.); Rob Doyle (Assoc.); Jaime Beauchamp, Alan Baseden, Lisa Knouse Braiman, Alberto Mena, Ray Vella (Illustrators); Eric Hoffmann Imaging: Annette Farrell (Mgr.), Alan Bomzer (Asst.), Leo Nietzer, Joseph Rhames

PHOTO EDITORS: Scott Mlyn (Deputy), Ronnie Weil (Sr.); Michael Hirsch, Anne Murray, Andrew Popper, (Assoc.), Bettina Baudoin, Kathleen Moore (Asst.), M. Margarita Eiroa, Lawrence Crowe, Sarah Greenberg Morse (Reserve)

EDITORIAL OPERATIONS: Yvonne F. Rodriguez (Director), Wally Baudin, Nicholas M. White (Mgns.) Karen Butcher, Francisco Cardozo, Thomas R. Dowd, Nancy Gones, Stephen R. Lebrun, Jody A. LoGrasso, Jose L. Martin, Peter K. Niberg, Jane M. Perkins, Richard S. Reissman, Karen Turley, Ilse V. Walberg, Barbara Wilhelm, Donald C. Pearson, Guillermo Ortiz

EDITORIAL TECHNOLOGY: Thomas L. Morgan (Director), Richard Balestrino, David Bandler, Marie Bryant, Beth Higgins, James Kutz, Neil MacLeod, John Navarro, Juan Rodriguez, Marta Skrelja, Craig Sturges, George White

BUSINESS WEEK ONLINE: Michael Mercurio (Managing ed.), A. Peter Clem, John A. Dierdorff, John Johnsrud, Dennis K. Berman, Nadav Enbar, Paul Eng, Patrick Lambert, Diane Young

CORRESPONDENTS: Atlanta: David Greising (Mgr.), Nicole Harris; Boston: William C. Symonds (Mgr.), Paul C. Judge, Geoffrey Smith; Chicago: Richard A. Melcher (Mgr.), Roger O. Crockett, David Leonhardt, Andrew Osterland, DeAnn Weimer; Cleveland: Peter Galuszka (Mgr.); Connecticut: Susan Jackson; Dallas: Wendy Zellner (Mgr.), Stephanie Anderson Forest; Detroit: Kathleen Kerwin (Mgr.), Keith Naughton, Bill Vlasic; Houston: Gary McWilliams (Mgr.) Los Angeles: Ronald Grover (Mgr.), Larry Armstrong (Sr. correspondent), Steven V. Brull, Kathleen Morris; Miami: Gal DeGeorge (Mgr.) Philadelphia: Amy Barrett (Mgr.) Pittsburgh: Stephen Baker (Mgr.) San Francisco: Peter Burrows, Steve Hamm, Linda Himelstein, Robert D. Hof, Andy Reinhardt; Washington: Owen Ullman (Sr. news ed.), Douglas Harbrecht (News ed.), John Carey, Paula Dwyer, Howard Gleckman (Sr. correspondents), Amy Borus, Stan Glick, Richard S. Dunham, Dean Foust, Susan B. Garland, Paul Magnusson, Mike McNamee, Stephen H. Wildstrom (Tech & You), Catherine Yang; Frankfurt: Thelma Peterson (Mgr.), Karen Lowmy Miller, David Woodruff; Hong Kong: Joyce Barnathan (Mgr.), Mark L. Clifford, Bruce Einhorn; London: Stanley Reed (Mgr.), Julia Flynn; Mexico City: Gen Smith (Mgr.); Moscow: Patricia Kranz (Mgr.); Paris: Gal Edmondson (Mgr.) Rome: John Rossato (Mgr.) São Paulo: Ian Katz (Mgr.) Singapore: Michael Shari (Mgr.) Tokyo: Brian Bremner (Mgr.), Robert Neff (Contributing ed.), Irene M. Kunii, Emily Thornton; Toronto: Joseph Weber (Mgr.)

EDITORIAL SERVICES: Broadcasting: Ray Hoffman; Business Manager: Barbara Boynton; Information Services: Jamie B. Russell (Director), Karen Stevens (Mgr.), Judi Crowe, Debra Deskin, Fred Katzenberg, Robert Roeker, Susann Rutledge, Barbara Silverbush; Office Manager: Roselyn Kopt; Communications: Robert Pondiscio (Director), Christine Summerson; Readers Report: Yvette Hernandez; Reprint Permission: Janet Gonzalez

PUBLISHER: David G. Fern

SR. VP. ASSOCIATE PUBLISHER: William P. Kupper Jr.

SR. VP. OPERATIONS: [Name obscured]

SR. VP. MARKETING & BRAND DEVELOPMENT: Harold K. Somerdyk

VP. STRATEGIC PLANNING & PRODUCT DEVELOPMENT: Kimberly Greer; VPs, SALES: Constance E. Bennett (International), Joanne K. Bradford (Western Region), Dan Dunn (Midwestern Region), Robert H. Kelly (Northeast Region), Louis R. Mohn (Southeast Region)

VP. STRATEGIC PROGRAMS: James H. McGraw IV

VP. SALES DEVELOPMENT: Mark A. Flinn

VP. MANAGING DIRECTOR/ASIA: Stephen B. Moss

VP. MANAGING DIRECTOR/EUROPE: Fritz Krusebecker

VP. TECHNOLOGY: Thomas J. Reed

VP. CONTROLLER: Bernard J. Drackwicz

DIRECTOR, ADVERTISING BUSINESS: Linda F. Carvalho

DIRECTOR, PRODUCTION & SALES SERVICES: Mario J. Talluto

EDITOR'S MEMO

THE LOWDOWN ON MUTUAL FUNDS

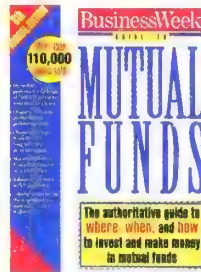
Mutual funds are supposed to simplify our lives. They allow us to delegate to professional managers important decisions about what securities to buy and sell. But do they actually make investment choices simpler? Hardly. Nowadays, there are thousands of funds and several dozen investment categories. How do you choose the right funds to buy, and how do you later make sure your funds are performing?

That's why we publish the *BUSINESS WEEK Guide to Mutual Funds*. It's a comprehensive guide, now in its eighth edition, by Senior Writer Jeffrey M. Laderman. It will help you understand the differences among the various funds, walk you through a fund's prospectus and shareholder reports, and examine fees and sales charges. The guide features the *BUSINESS WEEK* fund ratings and the 1998 Mutual Fund Scoreboard, which in addition carries

information about returns, risk, portfolio turnover, and expenses for some 2,000 mutual funds. The data are prepared for us by Morningstar Inc. Of course, the book is just one of

many ways that *BUSINESS WEEK* can help with your fund investments. The Scoreboard is now available in an interactive version at www.businessweek.com. To see the returns and the ratings for some 4,000 funds are updated monthly, and the Scoreboard offers numerous ways to screen the available data. You can also download a sample chapter from the book at the Web site or at

BUSINESS WEEK Online on America Online. The guide costs \$14.95 and is available from bookstores or by calling 800 2MCGRAW (800 262-4729).



JUST OUT: A way through the maze

Stephen B. Shepard
Editor-in-Chief

WHAT HATH JILL BARAD WROUGHT?

Having worked with Mattel CEO Jill Barad, I have only accolades for her ("The rise of Jill Barad," Cover Story, May 25). She is able to combine her multifaceted talents with prodigious hard work and unbelievable stamina. She is sensitive to others and has a wonderful sense of humor about her own foibles. She is adored by her family as well as dedicated employees who are willing to go the extra mile for her. She demands a lot but leads by giving more. Her impromptu talks and speeches are inspira-

tional. Your report accurately zeroes in on one remarkable woman.

Andrea...
Los Angeles

The energy, enthusiasm, and drive of Jill Barad described in your story bowled me over. Her ambition and desire to succeed were contagious, and I could not wait to show this article to my 16-year-old daughter. Then, in describing her husband's activities working out, commercials and a feature film, a sentence reads: "Last year, his company pulled in \$691,000 from Mattel for a Barbie story."

This stopped me cold. Does Mattel

Business Week

A Division of The McGraw-Hill Companies

JUNE 15, 1998 (ISSN 0007-7135)*** 3582

Published weekly except for one week in January and one in August, by The McGraw-Hill Companies, Inc. Founder: James H. McGraw (1860-1948). Executive, Editorial, Circulation, and Advertising Offices: The McGraw-Hill Companies Building, 1221 Avenue of the Americas, New York, N.Y. 10020. Telephone: 212-512-2000. Telex: 206000. Fax: 212-512-2049. U.S. subscription rate \$34.95 per year; 2 years, \$79.95; 3 years, \$99.95. Single copies, \$3.95; back issues, \$5. Write for rates in other countries. Subscriber Services: 1-800-835-1200. TDD: 1-800-554-1579.

Postmaster: Send address changes to *BUSINESS WEEK*, P.O. Box 430, Hightstown, N.J. 08520. Periodicals postage paid at New York, N.Y., and at additional mailing offices. Postage paid at Montreal, P.Q. Canada Post International Publications Mail Product Sales Agreement No. 246484.

Registered for GST as The McGraw-Hill Companies, Inc. GST #R123456789. Copyright 1998 by The McGraw-Hill Companies, Inc. All rights reserved. Registered in U.S. Patent Office. European Circulation Center, The McGraw-Hill House, Maidenhead, Berks, England. Telephone: 01628-23431; Telex: 924646. Officers of The McGraw-Hill Companies, Inc.: Joseph L. Dinnio, Jr., President; Harold W. McGraw III, President and Chief Executive Officer; James H. McGraw III, Senior Vice President and General Counsel; Robert J. McGraw III, Executive Vice President and Chief Financial Officer; Frank D. McGraw III, Senior Vice President, Treasury Operations; Michael K. Hehir, Jr., Information Services Group.

PHOTOCOPY PERMISSION: Where necessary, permission is granted by the copyright owner for those registered with the Copyright Clearance Center (CCC), 222 Rosewood Drive, Danvers, MA 01923, to photocopy material herein for the flat fee of \$1.00 per copy of each article, plus 10¢ per page. Copying for other than personal or internal use without express permission of The McGraw-Hill Companies is prohibited. Address requests for customized bulk reprints to The McGraw-Hill Companies, P.O. Box 457, Hightstown, N.J. 08520, or call 609-426-7000. ISSN 0007-7135/98\$10.00. PRINTED IN THE U.S.A.

e guidelines for ethical and prop-
ness practices and for conflicts
est? If not, what about the ap-
e of impropriety? Where is the
on something like this? Is \$23
in compensation and options on
ion Mattel shares so insufficient
rad has to funnel another nearly
0 to her husband?

Robert A. Adams
Manchester-by-the-Sea, Mass.

ying through O'Hare Interna-
Airport last week, we were
to see the new University Bar-
ertising. Apparently, the Barbie
es to college isn't dressed in a
or nursing outfit, doesn't come
laptop or a professor's pointer.
is dressed in cheerleader garb,
e with pom-poms. Is this the
e that detail-oriented, aggressive
ad wants to send to the young
of our future?

Paul Herman and Gayle A. Keck
San Francisco

JOBS. LISTEN TO YOUR CUSTOMERS

t finished reading "Back to the
t Apple" (Information Technolo-
7 25). I am 13 years old and a
ac supporter. I have always had
le or a Mac to use. Now, I am
o buy a new computer. I looked
for the cheapest one I could find
sacrificing quality. I noticed the
that most Macs were way more
ve than other computers.
y wait until the iMac comes out
ast. After learning that it will
ade a floppy drive and will have
3.6 modem, though, I will prob-
y buy it. I might have to get a
s PC. I think Apple could make
back if they had the software
ld make Macs cheaper without
ng quality.

Nicolas Gauthier
Wilmington, Del.

Jobs continues to confuse mar-
with promotion and promotion
ype. Marketing requires listen-
customers, something Mr. Jobs
does. Promotion requires pro-
the customer with information.
e really think that hype (e.g.,
lors and jazzy commercials) will
o for lack of functionality (e.g., a
odem and no floppy drive)?
he still doesn't seem to under-
hat his real competitor is not
mputer Corp. (or other PC man-
ers) but Microsoft. Until he li-
his still superior operating sys-
the widest possible array of
re suppliers, there will never be

enough Mac OS computers in the hands
of users for Apple to be more than a
fringe player, and Apple will have to
continue to depend on a dwindling band
of loyalists (like me) for support.

Michael Hayes
Westminster, Colo.

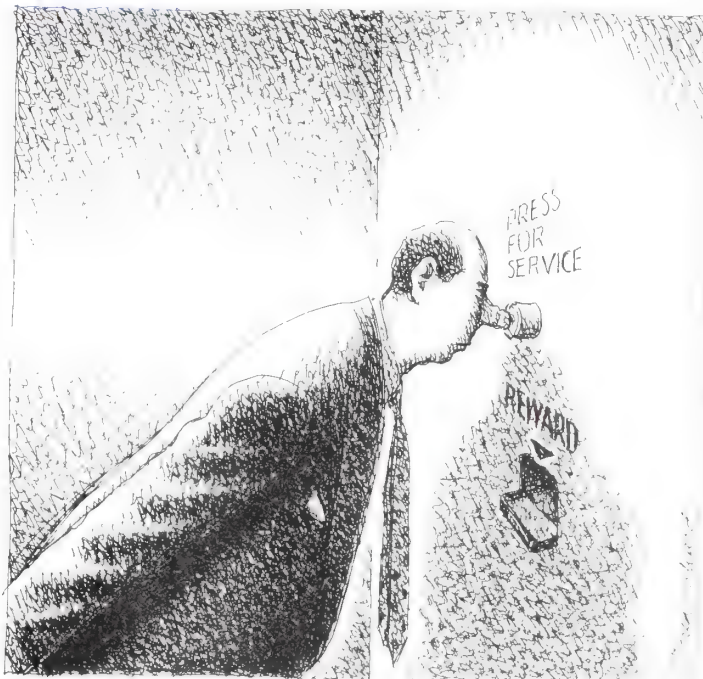
WHEN HIGH TECH HIJACKS PRODUCTIVITY

Technology upgrades are enhancing
productivity and making faster growth

possible with lower inflation ("Inflation:
A different take," Economic Trends,
May 25). But how many tech dollars
are going toward fixing the Year 2000
bug, and how much of that is at the
expense of enhancing productivity over
the next four years? How much techno-
logical infrastructure has a direct payoff
to a company's bottom-line productivity?

With a forecast 10% shortage of
skilled technology workers, more and
more companies are going to resemble
the one I work at, where the info-tech

WillTales



*The more arcane his relationship with his
network provider became, the more Bob thought
about switching to Williams.*

that **Williams** network 

Visit www.willtales.com or call 1-800-WILLIAMS, for rewarding telecom solutions.

©1998 The Williams Companies, Inc.

Every business has problems. Are yours the right ones?

The right problems are about your business.

The wrong problems are about your technology.

Example: Why can't I open up the attachment in this e-mail?

Example: Why are Sales and Manufacturing always working from different numbers?

The irony is that the very technology that purports to make you more efficient can sometimes create more problems than it solves.

A Digital_Nervous_System can help.





A Digital_Nervous_System relies on connected PCs and integrated software to make information flow more rich, rapid and accurate. This helps you focus more on your business and less on your technology.

Example: A competitor announces a price cut. You and your team brainstorm a solution online and e-mail a new pricing structure that's immediately accessible to everyone who needs to know. Done.

Example: Your sales people need more up-to-the-minute product delivery information in the field. You get real-time production and shipping data poured into a common database that's secure and Web-accessible by Sales. Done.

This is not something that comes in a box.

You build your own Digital_Nervous_System, over time, to meet the unique and changing needs of your company.

The foundation of any Digital_Nervous_System is software that acts alike, works alike, thinks alike. Microsoft® Windows®, Office and BackOffice® provide an ideal foundation for a Digital_Nervous_System because we built them from the ground up to work with each other, as well as with an industry's worth of applications.

In the end, you'll spend more time with the problems that matter.

Where do you want to go today?

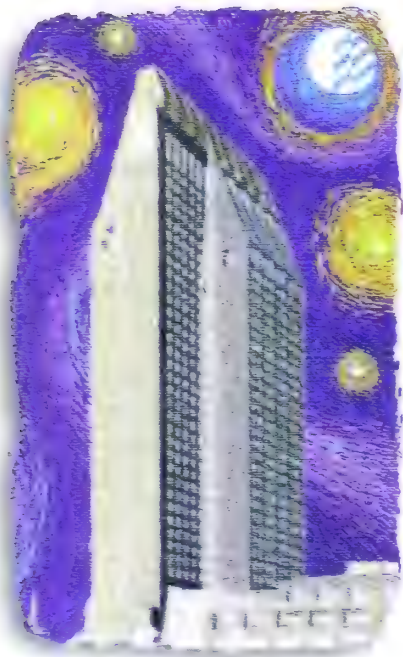
Microsoft®

www.microsoft.com/digital_nervous_system/

WORLD WORKPLACE

Oct. 18-20, McCormick Place South, Chicago, Ill., USA

Like art, the workplace is a fusion of contemporary thought.



GAIN A BROAD IMPRESSION

World Workplace presents products and theories of the workplace industry's most well-respected organizations. Choose from 85 educational programs covering concepts of architecture, construction management, design, engineering, facility management and real estate.



CONSIDER NEW POSSIBILITIES

Not your typical tradeshow, the Learning Center further illustrates ideas expressed in the educational sessions with a collective exposition of products and services. Exhibitors can help you interpret and evaluate new ideas, procedures and opportunities.



EXCHANGE VIEWPOINTS

World Workplace activities provide you with casual, entertaining occasions to network with your peers and other professionals from around the world. Discussing various dimensions of productivity from alternate angles will enhance your perception of the workplace—to the benefit of your company and your career.

World Workplace is the only event that combines all disciplines of the workplace. It is where professionals meet to continue the evolution of thought on providing effective work environments.

RECTIONS & CLARIFICATIONS

ood-bye to fixed pricing?" (Special
t, May 4), the Web site of Southern
rnia Gas Co. should have been listed
w.energymarketplace.com.

ter lights for big cities" (Social
, May 4) incorrectly identified the
of Louisville. He is Jerry E. Abramson.

the winner is..." (Editor's Memo,
) should have cited three Deadline
ominations for BUSINESS WEEK. Winners
announced June 8.

ment struggles to keep projects
date and spends large amounts
ormation "tools" that are under-
. How long can this continue and
vide productivity enhancements
ep inflation at bay? The words
il thinking" come to mind.

Dean Mason
Los Angeles

INGTON HAS
LEAR DOUBLE STANDARD

at India needs is wealth, not
" (Commentary, May 25) sug-
that while it is all right for the
e to stockpile nuclear weapons
se the U.S. has a sizable busi-
lationship with them), it is not
at for India to do so (since a
able trade agreement is lack-
) such double standards are al-
to pass as realpolitik and are
craft our foreign policies, then
im to being a just and fair na-
ll be unconvincing, and we will
oral authority.

onsidering that two of our strongest
Britain and France, have refused
se sanctions against India at the
of Eight Summit, maybe we
take a serious look into India's
y concerns. Otherwise, the U.S.
e perceived as comfortable with
nist dictators but not with the
largest democracy.

Buddhadev Mukherjee
West Chester, Ohio

NG
S
EER SHORTAGE—OR
A SALARY SHORTFALL?

should look beyond the selfish
of some company presidents and
ngressmen beholden to them
me your skilled workers," Edi-
May 25). As the Institute of
al & Electronics Engineers re-

From American Century:

Two Funds That Keep Beating The S&P

Average Annual Total Returns As Of March 31, 1998	1 Year	3 Years	5 Years	Life of Fund
INCOME & GROWTH	52.2%	34.3%	22.7%	22.7% (12/17/90)
EQUITY GROWTH	55.5%	35.2%	23.5%	20.8% (5/9/91)
S&P 500 INDEX	47.9%	32.7%	22.4%	21.4% (12/17/90) 19.6% (5/9/91)

Please ask for a prospectus with more complete information, including charges and expenses. Be sure to read it carefully before you invest. Naturally, past performance can't guarantee future results. These figures are for investor class shares and assume all dividends were reinvested. Please consult a prospectus for information about other share classes. Investment return and the value of your principal will fluctuate, and the final value of your investment may be more or less than what you started with. The S&P 500 is an index created by Standard & Poor's Corporation that is considered to represent the performance of the stock market generally. It is not an investment product available for purchase. ©1998 American Century Services Corporation, Funds Distributor, Inc. BSW



www.americancentury.com

1-800-345-2021



CORRECT
ULTY
PARTICIPATION
SUPPORT

2 HISTORY 101

PROFESSOR: JOHN F. KENNEDY

PLEASE NOTE: Read each question carefully before answering.
If unsure of answers, visit the John F. Kennedy Library & Museum
today. Open daily from 9 to 5. Please call 617-929-4523.

SUBJECT: JOHN F. KENNEDY'S LIFE (1917 - 1963)



Test No. 2: Fill in the blanks

- 1 _____ is the item that traveled farthest to reach the Library.
- 2 _____ is the Pulitzer Prize winning book he wrote.
- 3 His Library & Museum is built on a former _____
- 4 _____ was his favorite musical.
- 5 To strengthen his voice he used to _____ every morning.



JOHN F. KENNEDY
LIBRARY AND MUSEUM

- ANSWERS:
1. Moon rock from Apollo 15
 2. Profiles in Courage
 3. Landfill
 4. Camelot
 5. Bark

Extra Credit:

Visit the Library to find out why Jackie got a "D" on her report card at Miss Chapin's School, what J.F.K. named his boyhood sailboat and where Jackie's camera is kept.

FOR MUSEUM USE ONLY

INTERNET ADDRESS DIRECTORY

Reach these Business Week advertisers on the Web:

3M
www.3m.com
Aetna
www.aetna.com
AMD
www.amd.com
American Express Financial
Advisors
www.americanexpress.com/
advisors/
The American Institute
of Architects
www.aiaonline.com
American Isuzu Motors, Inc.
www.isuzu.com
American Power Conversion
www.apcc.com
Andersen Consulting
www.ac.com
AT&T
www.att.com
AXA Insurance & Investment
www.axa.com
Bavarian Ministry for
Economic Affairs
www.bayern.de
Bell Atlantic
www.bell-atl.com
Casio
www.casio.com
Chrysler
www.chryslercorp.com/
Cisco
www.cisco.com
The CIT Group
www.citgroup.com
Clarify
www.clarify.com
CNF Transportation Inc.
www.cnf.com
Comdisco
www.comdisco.com
Compaq
www.compaq.com
Computer Associates
www.cad.com

Compuware Corporation
www.compuware.com
Continental Airlines
www.flycontinental.com
Dale Carnegie Training
www.dale-carnegie.com
Dana Commercial Credit
www.dana.com/dcc
Delta Air Lines
www.delta-air.com
Digital PC
www.windows.digital.com
Diners Club International
www.dinersclub.com
J.D. Edwards & Company
www.jdedwards.com
EMC
www.emc.com
Energy Cost Savings Council
www.plugin.org
Equitable/AXA
www.equitable.com
Ericsson
www.ericsson.se
E*TRADE
www.etrade.com
Federal Express
www.fedex.com
Fidelity Investments
www.fidelity.com
FileNET
www.filenet.com
FlexiInternational Software
www.flexi.com
Ford
www.ford.com/
France Telecom
www.francetelecom.fr
Fujitsu
www.fujitsu.com
Fujitsu PC Corporation
www.fujitsu-pc.com
Gateway 2000
www.gateway.com

GE Information Services
www.geis.com
General Motors
www.gm.com
GTE
www.gte.com
Hammermill
www.hammermillpaper.com
Hewlett-Packard
www.hp.com
Hitachi
www.hitachi.com
Honda
www.honda.com
Hyatt Hotels Corporation
www.hyatt.com
Hyperion Software
www.hysoft.com
IBM
www.ibm.com
International Paper
www.ipaper.com
Iomega
www.iomega.com
JBA International
www.jbaintl.com
Lawson Software
www.Lawson.com
Lexus
www.lexus.com
Lincoln-Mercury
www.lincolnm Mercury.com
Lotus
www.lotus.com
Lucent Technologies
www.lucent.com
MCI
www.mci.com
Mercedes-Benz
www.usa.mercedes-benz.com
Merrill Lynch
www.ml.com/
Microsoft
www.microsoft.com/
Mississippi Power
www.msppower.com/ecodev
MITA
www.mita.com
Mitsubishi Electronics
America, Inc./Electronic
Device Group
www.mitsubishichips.com

Mitsubishi Motor Sales
of America
www.mitsucars.com
MOVADO
The Museum Watch
www.movado.com
NCR
www.ncr.com
Norfolk Southern
www.nscorp.com
Nortel
www.nortel.com
Northwest Airlines
www.nwa.com
Novartis
www.novartis.com
Okidata
www.okidata.com
OPEL
www.opel.com
The Panasonic Personal
Computer Company
www.panasonic.com/ruggedpc
PeopleSoft
www.peoplesoft.com
Praxair
www.praxair.com
PSINet
www.psi.net/
QAD Inc.
www.QAD.com
QUALCOMM
www.qualcomm.com/cdma
Republic National Bank
www.rnb.com
Ricoh Corporation
www.ricoh.com
Roberts Express, Inc.
www.roberts.com
Royal Insurance
www.royal-usa.com
SAP
www.sap.com
SAS Institute
www.sas.com/
Savin
www.sales@savin.com

Charles Schwab
www.schwab.com
Seagate
www.seagate.com
Sharp
www.sharp-usa.com
Siemens Corporati
www.siemens.com
Siemens Microelec
www.smi.siemens.co
Sprint
www.sprint.com
Sun Microsystems
www.sun.com
Symbios Logic
www.symbios.com/
TIBCO
www.tibco.com
Tivoli
www.tivoli.com
Toshiba America
Information System
computers.toshiba.co
Toyota in America
www.toyota.com/us
Toyota Motor Corp
Services
www.toyota.com/us
Toyota Motors
www.toyota.com
T. Rowe Price
www.troweprice.co
United Technolog
www.utc.com
UPS
www.ups.com
US Airways
www.usairways.com
UUNET Technolog
www.uu.net
Visio
www.visio.com
Vizio
www.vizio.com
Xerox
www.xerox.com

BusinessWeek

www.businessweek.com

Run
your accounting
functions more productively...
@ Internet speed



FLEXi
Flexi International Software

800-353-9492 <http://www.flexi.com>

Readers Report

testified before Congress, reports shortage of high-tech engineers are exaggerated. Our country already has many highly qualified engineers who are underutilized simply because of their age.

I found this out when several colleagues and I recently lost our engineering jobs due to a merger; we were pointed to find very few offers to hire us in our 40s and 50s. Fortunately for me, a forward-looking company retained me as a consultant, and my school of engineering now employs me, as well. But there are few companies and universities that add old engineers to their ranks, even while there is a shortage. They cry because they want to keep salaries as low as possible. One way to attract more people to engineering careers is to raise salaries. Immigrants have added greatly to our society, and I support high-tech immigration at present levels. But to raise the levels would be unfair to our engineers and engineering students.

John R. Brauer
Milwaukee

WIM OF WORKERS' COMP INS IN MASSACHUSETTS

They were correct in stating that Massachusetts cut its premiums by 21% for insured businesses a great deal of money. ("Here come hefty hikes in benefits," Corporate Scoreboard, May 18). In the past three years, however, the cumulative decreases in workers' compensation premiums are lowering the cost to employers by more than \$1 billion a year. The decreases came after major changes instituted by the Dukakis Administration in 1991. When Massachusetts has seen the dramatic turnaround of any state in the nation in terms of workers' compensation reform.

James J. Campbell
Commissioner
Industrial Accidents Dept.
Boston

BUSINESS PUT STREAMING TO THE TEST

There was one important aspect of streaming technology not cited in the 100-pound gorilla's new toy" (Innovation & Technology, May 11). Microsoft's Net Show and Real Networks' technologies may be "ready for prime time," but it would be premature to judge their success until Corporate America uses the technology to enhance

Changing Jobs Is Challenging. Moving Your 401(k) Doesn't Have To Be.

You know how important it is to roll over your 401(k). But did you know how easy it can be? At American Century, we'll make the phone calls. We'll fill out the forms. We'll even work with you to find a balanced mix of American Century funds for your portfolio. Call 1-800-345-5702 today and let our Fund Specialists help you get started.

©1998 American Century Services Corporation, Funds Distributor, Inc. Call for a prospectus with more complete information, including charges and expenses. Be sure to read it carefully before you invest.

BSW



AMERICAN
CENTURY

www.americancentury.com

1-800-345-5702

Get the latest advertiser info.

Check out

BizLink

www.businessweek.com/BizLink/

on page 140

The SAS® Data Mining Solution



There are millions of stories in your customer data. All ready to be sold.

Which prospects are hot? Or not? Which target groups need to be ignited...or simply delighted? Instead of just storing your customer data, why not get the whole story with the SAS Data Mining Solution? It's the only software that spans every facet of the data mining process, bringing you ease of use and analytical depth in a single package—one that draws directly from the award-winning SAS Data Warehouse.

Just point and click. You don't have to be a statistician, or a database expert, to convert very large amounts of data into true business knowledge...and ultimately into competitive advantage. Identify your most profitable customers. Gauge the effectiveness of advertising. Manage customer relationships. All without ever leaving your desktop.

Read 'em and reap

Let the patterns you'll discover in your customer data point the way to more profitable, proactive decision making. To find out more, including real-world success stories and an interactive demo of the SAS Data Mining Solution, visit us at www.sas.com/mining

Analyze sales
products, and finances

Explore customer
demographics

Detect fraud

Point-and-click
graphical user interface

Fully Web enabled

Year 2000 compliant



SAS Institute Inc.

The Business of Better Decision Making

www.sas.com/mining E-mail: bw@sas.com Phone 919.677.8200

SAS is a registered trademark of SAS Institute Inc. Copyright © 1998 by SAS Institute Inc.

Readers Report

business processes. Until business streaming from a novelty to a standard approach, the technology will pay for itself. The consumer application of streaming still suggests an unproven revenue model. Can advertising be done? Can pay-per-view?

Companies such as Cisco Systems, FedEx Express, and Boeing, however, are beginning to use streaming technology for reseller training. Schools such as the Massachusetts Institute of Technology are using streaming for distance learning, and other applications. Other emerging technologies, once they are incorporated into corporate practices for communication, will be graphically dispersed audiences, and then be ready for prime time.

Paul Berberian
President
VStream Inc.
Boulder, Colo.

FINDING US ONLINE

BusinessWeek ONLINE

Full text of Business Week, the Business Week Briefing, and seven years of BW archives are available on the World Wide Web at:

www.businessweek.com

and on America Online at Keyword: BW.

Sign up for BW on AOL, call (800) 641-4848 and mention Business Week.

maven

Looking for computer equipment? Visit Maven, our Computer Buying Guide, for continuously updated ratings and price information. To Keyword: Maven on America Online, or to the World Wide Web at:

www.maven.businessweek.com

REACH BUSINESS WEEK

DR READERS REPORT

must include an address and daytime and evening numbers. We reserve the right to edit for clarity and space and to use them in all print and electronic editions.

Business Week, 1221 Avenue of the Americas, New York, NY 10020
512-6458

readers@businessweek.com
Online: readersbw

ER SERVICES

Individual subscriptions, corporate subscriptions, changes or problems, and single copies.

(800) 635-1200 or (609) 426-7500
(609) 426-7623.

wcustsv@businessweek.com

AND COPYRIGHT PERMISSIONS

Reprints (minimum order of 500) contact 5494

Linking or reusing editorial material.

(800) 512-4801

(800) 512-4938

From American Century:

An Over-Achieving International Fund

Average Annual Total Returns As Of March 31, 1998	1 Year	3 Years	5 Years	Life of Fund (5/9/81)
INTERNATIONAL GROWTH FUND	33.8%	23.2%	17.7%	16.3%
LIPPER INTERNATIONAL FUNDS AVERAGE	19.5%	14.1%	13.3%	n/a

Please ask for a prospectus with more complete information, including charges and expenses. Be sure to read it carefully before you invest. Naturally, past performance can't guarantee future results. These figures are for investor class shares and assume all dividends were reinvested. Please consult a prospectus for information about other share classes. Investment return and the value of your principal will fluctuate, and the final value of your investment may be more or less than what you started with. The Lipper International Fund average is an average of funds that invest their assets in securities with primary trading markets outside the U.S. It is not an investment product available for purchase. You should keep in mind that international investments are subject to special risks, such as currency fluctuation or political instability. ©1998 American Century Services Corporation, Funds Distributor, Inc. BSW

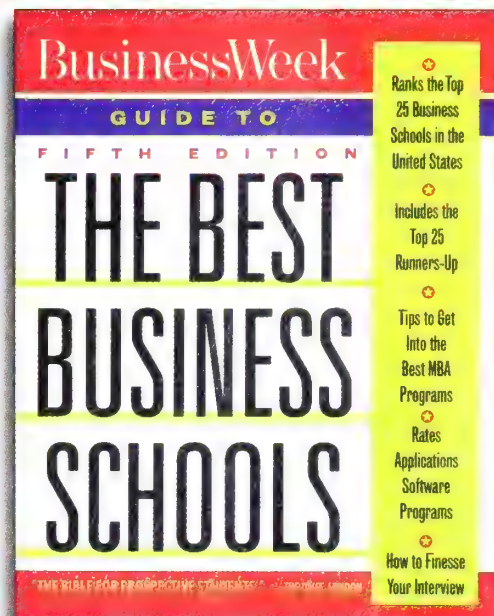


AMERICAN CENTURY

www.americancentury.com

1-800-345-2021

Looking at B-schools? Make this your *first* choice



The *only* guide to feature accurate business school rankings and profiles by recent graduates and recruiters

- **NEW!** Expanded ratings of more schools than ever
- **NEW!** Rankings of GMAT prep courses
- **NEW!** Comparisons of application software
- **PLUS!** Candid comments from the latest graduating classes, students' quality-of-teaching ratings, starting salary & bonus averages for graduates, and much more



Available at bookstores everywhere
Visit us on the Web at www.books.mcgraw-hill.com

Look on the bright side. There'll also be lots more cherries and watermelons in the future. Because of agribusiness, Hoechst Schering AgrEvo, we aim to utilize biotechnology in improving crop production and protection for harvests that are more bountiful than ever. After all, the cultivated areas of the world won't get any bigger. But our children will. And it's their future that's at stake.



Imagine a world filled with more spinach, Brussels sprouts, and...

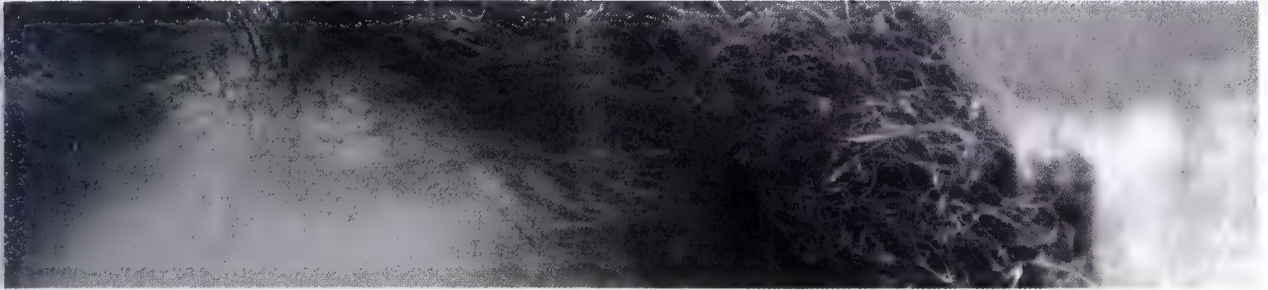


R 1548 B.C.

 is the agribusiness of Hoechst, an international group of companies spearheading in v...

The Future in Life Sciences

Hoechst 



na beans than you ever thought possible.



THE INVISIBLE WALL

Germans and Jews: A Personal Exploration

By W. Michael Blumenthal

Counterpoint • 444pp • \$27.50

THE STRUGGLE TO BE JEWISH AND GERMAN

In March, 1812, Prussia's King Frederick William III granted his country's Jews the right to vote in municipal elections. The Edict of Emancipation was a watershed, welcomed by its oppressed beneficiaries with an outpouring of gratitude. When Prussia joined forces with Russia the following year to drive out Napoleon, Jewish men flocked to enlist, and families donated silver and savings to support the war effort.

But it wasn't long before Jews learned that they still were not accepted. Defeating Napoleon fueled German nationalism, and anti-Semitism came back into vogue with a vengeance. In an epidemic of rioting in 1819, youth gangs from Hamburg to Berlin set fire to Jewish houses, pillaged Jewish businesses, and beat up every Jew they could find.

The history of modern Germany's Jews is full of such seesaws between triumphs of integration and tragedies of rejection. In *The Invisible Wall: Germans and Jews, a Personal Exploration*, former U.S. Treasury Secretary W. Michael Blumenthal chronicles a love-hate relationship existing between two populations whose schizophrenia has yet to be cured. Painstakingly researched and often poetically written, the book goes further than many others toward answering the 20th century question of why the Holocaust took place in Germany.

Blumenthal structures his history, spanning some 350 years, around the stories of six ancestors, culled from official and personal records. It is a beautiful narrative device, allowing the author to interweave anecdote and exposition seamlessly. For instance, the first of the line, Jost Liebmann, started his career in the 1660s as a wandering peddler and ended it as a wealthy Berliner—the court jeweler to King Frederick I. His rise illustrates not only

the lives and times of his co-religionists but also the founding of modern Prussia—key to the Jews' later treatment in Germany.

From the beginning, Jews succeeded in Germany against huge odds. Subject to dozens of special taxes, barred from craft guilds and most professions, and physically safe only when they carried expensive letters of protection, they initially were highly segregated, living in small, self-supporting communities. Yet Jews were drawn to Prussia in part because even less hospitable conditions prevailed elsewhere in Europe. In White Russia and the Ukraine, pogroms were carried out regularly; in France and Austria, Jews had no civil rights whatever; and in Spain and Portugal, they were either driven out or burned for heresy well into the 18th century.

Jews' gradual integration into Prussian society came via a series of invitations to participate in the German economy. When the Seven Years War left Frederick the Great close to bankruptcy, he relied on Jews in charge of the royal mint to inflate the Prussian currency with new, cheaper coins that used less silver. It was a risky but profitable business that helped create a new Jewish business elite in the 18th century. Yet such developments almost always came with a backlash of renewed resentment.

Jews in turn vacillated between longing to enter the mainstream of German secular culture and desiring to hew to their religious roots. That struggle is summed up in the tale of Rahel Varnhagen von Ense, born Rahel Levin. Blumenthal's distant relative adopted the values of the Age of Enlightenment, presided over a salon of luminaries that

included poet Heinrich Heine, and married a gentile aristocrat. Her fondest wish, to become truly German, shattered by a resurgence of Prussian anti-Semitism, and she died in 1833, feeling bitterly betrayed.

Even when he has little material which to build three-dimensional characters, Blumenthal manages to give his relatives presence. And the closest are drawn with heartfelt sympathy. Blumenthal's father, Ewald, was an assimilated middle-class German Jew who won an Iron Cross fighting for the Kaiser and who had run a successful family banking business. When the Nazis rose to power, "he stayed in Germany and hoped that Hitler was only a bad dream," writes Blumenthal. After surviving two years in Buchenwald, Ewald escaped with his family to the Shanghai ghetto, then emigrated to San Francisco in 1947. With his father, Blumenthal closes the circle: "We were among as our ancestors had once arrived.

Poor Jews, paupers, out of a country of our own.

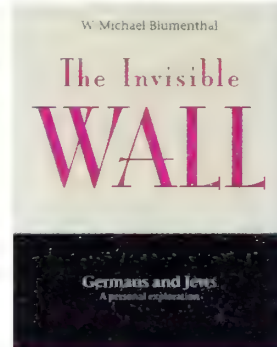
Unfortunately, Blumenthal devotes little space to his own career in America. He attended Princeton University and went on to become chairman of Bell & Howell Corp. and Burroughs before serving in the State Dept. and ultimately as Treasury Secretary under President Jimmy Carter. Since his book is about

many, it is understandable that Blumenthal has deemed his own post-emigration story irrelevant. Yet one wishes he had delved more deeply into the feelings that drove him to write the book.

Nevertheless, he has written a courageous and moving treatment of a painful subject. *The Invisible Wall* describes people so stubbornly in love with their adopted homeland that countless hardships, including the Holocaust, came to them as an utter shock. To the Germans, any Jew's choice to remain in Germany may seem evidence of a particularly incredible state of denial. But Blumenthal's book shows, the psychology of the German Jews is more complicated than that.

BY JOAN WARE

Warner is senior news editor of *Europe*.



BLUMENTHAL TELLS OF FOREBEARS WHIPSAWED BETWEEN INTEGRATION AND REJECTION

No money-back guarantee

No proof of delivery

No tracking



No overnight commitment

No on-call pick-up

This is priority?

If getting your package there on time is a priority, make sure you use FedEx.

FedEx

The Way The World Works.

The digital age hasn't created a paperless society. Just a revolution in paper.

It's been suggested since the dawn of the computer age. A future in which everything worth knowing is accessible on screen. But as it turns out, people don't just want information at their fingertips. They want it on their fingertips. They want to be able to touch, fold and dog-ear; to fax, copy and paste; to scribble in the margins or post proud on the refrigerator door. And, above all, they want to print out – quickly, flawlessly and in vibrant color.

So today, as people require more (and more types of) paper than ever, our research centers are responding with new papers for home and business.

Printing papers such as our Hammermill brand Jet Print Ultra® are one example. They enable anyone with an ink jet printer to print with the sort of brightness and smoothness you'd expect from fine magazines.

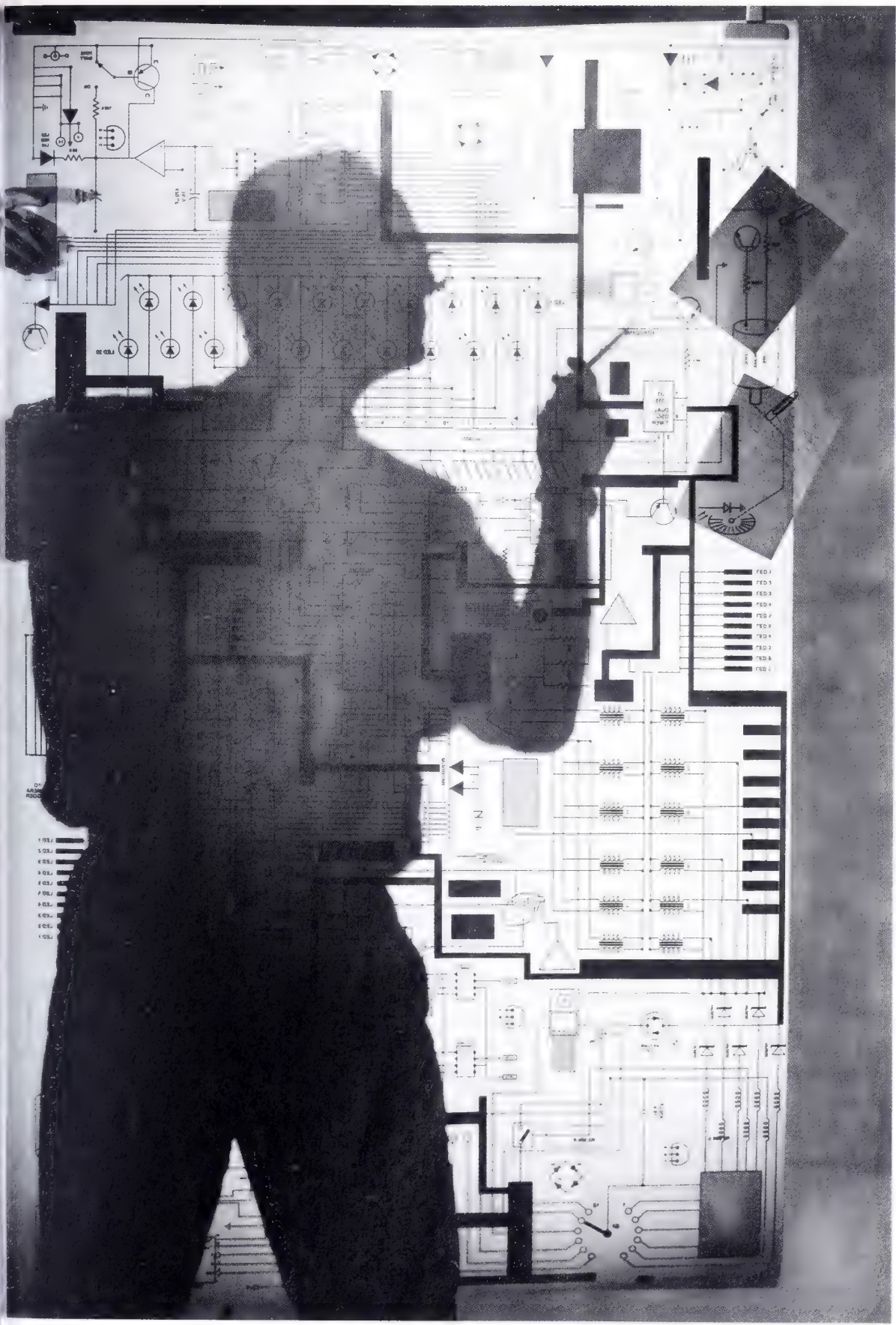
The introduction of a lightweight paper like Accolade® is another example. It results in superior printing quality for catalogs, magazines, brochures and the like, at less cost for paper and postage.

From printing paper to fine art paper to digital photography paper, we're committed to providing the "Paperless Society" with all the paper it needs.

INTERNATIONAL  PAPER

We answer to the world.

www.ipaper.com



BY STEPHEN H. WILDSTROM

THIS COOL LAPTOP IS HARD TO USE

HP's Sojourn is a real head-turner. Too bad its keyboard makes typing difficult

Compromise is the essence of laptop designs. Severe limits on size, weight, and power consumption have forced engineers and customers to make some tough choices. Today's consensus business machine weighs about 6 pounds, has a 12- or 13-inch display, offers interchangeable floppy and CD-ROM drives, can be used as a desktop replacement, and will cost you about \$3,000.

Then there is the Hewlett-Packard Sojourn. Designed in partnership with Mitsubishi as the ultimate in executive mobility, it's the epitome of drop-dead cool. True, it costs \$5,800 and features a keyboard that, at best, makes it hard to type accurately. But that won't stop quite a few of these from turning up on first-class airplane tray-tables—and turning the heads of passengers who spot them.

LAYER CAKE. Sojourn provides a glimpse of what the future of laptops might be now that they've become the Swiss Army Knife of the digital age, suitable as desktop computers, portable links to the office, or multimedia presentation devices. Sojourn is a flexible notebook designed in three "slices" that fit together like a layer cake. The top slice makes Sojourn

uniquely thin and light. Using just this keyboard-screen section provides a 233 MHz Pentium processor (no room for a Pentium II), 64 megabytes of memory, a 2.1-gigabyte hard drive, and 12.1-inch active matrix display, all housed in a sleek black and gray magnesium case just 0.71 inches thick and weighing 3.2 pounds. The design originally called for a new type of lithium polymer battery that would have provided more

KEYBOARD/DISPLAY
0.71 in. thick, 3.2 lb. Very portable, but quirky keyboard makes typing hard. Good for reading or light typing.

EXTRA BATTERY
0.4 in. thick, 2.2 lb. Quadruples battery life to six hours. Can be used with keyboard slice only or with both of the others.

design flexibility, but various problems forced HP to settle for the more conventional lithium ion.

This thin, light laptop would strike me as nearly perfect for most uses, particularly travel, were it not for one thing. The case isn't deep enough to hold a conventional keyboard. Instead, Sojourn uses a membrane keyboard like those on calculators. Despite full-size key spacing, I found that without the normal up-and-down motion on

the keys, it was very difficult to type. With limited tactile feedback, it's hard to tell whether you've actually pressed a key or not. Making things worse, the entire keyboard flexes a little when a key, especially one toward the center of the layout, is pressed. As a result, I expect that the main audience for the Sojourn will be executives who use laptops more often to peruse documents than to create them and whose typing consists mainly of brief replies to E-mail messages.

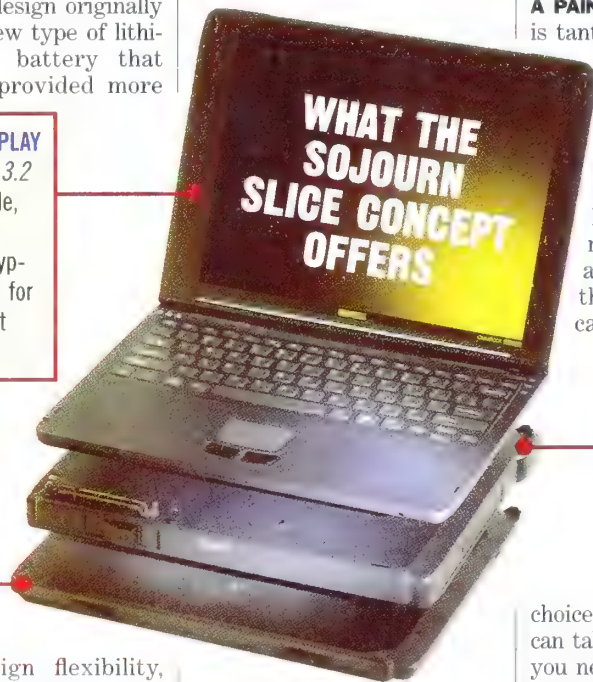
The Sojourn is in a tradition of ultra-compact notebooks with no room for internal floppy or CD-ROM

Ultra and since followed by other laptop makers, including Compaq, Toshiba, and Fujitsu. A slice clamps the bottom to provide serial, parallel ports, floppy and CD-ROM drives, a pair of pop-out speakers, and other features.

The combination is a featured laptop with a battery life of 90 minutes. A second slice, an option that can be used with or without the multimedia unit, quadruples battery life. In its maximum configuration, at 8.2 pounds, the Sojourn is a match in build, not performance, for heavyweights as the Toshiba Tecra 780 and the IBM ThinkPad 770.

A PAIN. All in all, the Sojourn is tantalizing. I love the idea of a laptop that can slide into a briefcase and barely be noticed. But I wrote this column on a Sojourn, and it was a pain. I'd gladly trade a few centimeters of thickness for a real keyboard. But that a modular concept can be a complete

MULTIMEDIA
0.4 in. thick, 2.8 lb. Has CD-ROM and floppy drives, pop-out speakers, printer port, and other features.



drives, but it is the most extreme design yet. It is limited to two side-by-side PC Card slots, an infrared port, and a universal serial bus connector. The USB port will become more useful when USB accessories hit the market, but for now, there's no way to attach a printer or an external drive to the basic Sojourn.

Instead, HP followed an approach pioneered by Digital Equipment with its HiNote

choice for road warriors: you can take what you need or you need it. On many trips, you would take a Sojourn notebook and maybe the multimedia unit, leaving the rest in my luggage.

To date, no slice design has become a best-seller, and the Sojourn is too expensive to expect to change that. Next week, I will review a crop of more conventional laptops that most people will find appealing—and useful. For now, the Sojourn remains a design concept whose time is near.

JEFFREY E. GARTEN

DON'T LET CONGRESS SHANGHAI CHINA POLICY



G-TIED:
Corporate
America will
be a beating
because no
long-term
policy can
come out of
this
Capitol Hill

Warning to American CEOs thinking about doing business in China: Tread cautiously. The current furor on Capitol Hill over exports of satellites, the upcoming annual congressional brouhaha over human rights and most-favored-nation status, and whatever other controversies surround President Clinton's summit in Beijing later this month make for nasty enough politics.

Even worse, China appears to be heading for an economic crisis. Its growth, its exports, and incoming foreign investment are rapidly losing steam. Beijing is struggling to restructure an insolvent banking system, shut down thousands of bankrupt state companies, and cope with some 5 million newly unemployed workers. As economies in Asia contract, the Middle Kingdom is increasingly vulnerable. The business climate could deteriorate quickly.

A decade of unrelenting trade battles with the U.S. lies ahead, especially as the bilateral trade deficit soars. China is, after all, a long way from being a free-market country. Its currency, the renminbi, is not fully convertible. Two-thirds of the country's investment spending is state-directed. China maintains huge protectionist barriers in industries such as finance. It still fails to protect intellectual property rights fully.

Big conflicts with Taiwan loom as well. Within 18 months, the island could elect a leader who supports political independence from the mainland. This would put the U.S. in an agonizing position of choosing between a rising superpower and a small nation that is a loyal ally, a democracy, and a market economy. Congressional support for Taiwan will certainly be intense. So will China's reaction to American intervention.

SHORT-TERM GOALS. America's ability to deal with problems like these will be severely undercut because policy toward China is being driven by the swirl of Washington's short-term political currents. One day the congressional preoccupation is human rights, another day it's illegal campaign funding, the next it's high-technology exports. These are serious issues—and each is horrendously complex. Are fiber optics a commercial or military technology? How does one evaluate progress on human rights in a society of 1.2 billion people emerging from totalitarian rule? Dealing with every problem as if it were the only issue is a sorry way to manage America's relations with

the world's second-most-important country.

All this adds up to Corporate America getting hit in China. U.S. companies need a consistent, long-term China policy from Washington. But as long as Capitol Hill acts the way it does, they won't get it. Paradoxically, despite all the talk about the rise of global markets and the declining power of governments, Corporate America and Washington need one another in China.

The most powerful influence that Americans can have on China will be U.S. companies bringing their products, technology, and management. At the same time, Washington's clout will be needed to maintain pressure on Beijing to open its markets and create laws that are clear and fair. Cooperation between U.S. corporations and Washington will be particularly critical when China experiences some of the turbulence that has infected other big emerging markets such as Mexico, South Korea, and Indonesia.

SATELLITE FRENZY. It would therefore be a shame if the frenzy over satellites in Congress undercut or even forced the postponement of President Clinton's summit, the best opportunity in a decade to build constructive ties between the two countries. Since last October, when China's President Jiang Zemin came to Washington, the Administration has emphasized expanding American business dealings with China, promoting democracy and the rule of law, and encouraging more cultural and educational exchanges. It has attempted to keep any one issue from throwing the U.S.-China relationship off course. It has tried to cultivate China as a partner rather than make it feel like the enemy. These were exactly the right goals. For its part, China has acted responsibly in putting Asia's—and America's—economic interests above its own in not devaluing the renminbi. It has also freed key political dissidents, and it is now in a position to help defuse the threat of nuclear war between India and Pakistan.

Fact is, there will be no winners from the arguments flaring in Washington—not Congress, not the Administration, not Corporate America, not China. In describing how the U.S. dealt with the most powerful up-and-coming nation of the 21st century, future historians are bound to marvel how America, at the height of its economic and political prowess, could have so miscalculated its own long-term interests.

Garten is dean of the Yale Management School. A former investment banker, he was Under Secretary of Commerce for International Trade in the first Clinton Administration. (jeffrey.garten@yale.edu).

There are over 7500 ISPs.

*But only one of them is an
Internet Communications Company for business.*

ADVANCING THE INTERNET

At UUNET, our goal is to help your company communicate more effectively. That's why we're advancing the Internet, making it bigger and better. We're growing our network a thousand percent each year, adding thousands of miles of fiber-optic cable and hundreds of thousands of modem ports, connecting the US, Europe and Asia via undersea cable and upgrading our hubs to keep pace with the explosive growth in Internet traffic. This advanced network allows us to offer innovative products like Internet-based faxing and mail.



Unite the world of business, enabling thousands of companies to do more, better and faster. So call 1-800-421-42, or visit <http://info.uu.net/growth> for more information. Because when it comes to business on the Internet, there's only one Internet Communications Company — UUUNET. The Internet At Work.



A WORLDGEM COMPANY

BY GENE KORETZ

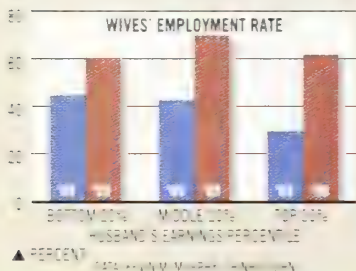
JUST WHY DO WIVES WORK?

Not only to shore up family incomes

In recent decades, many American men have experienced both declines in employment and stagnant or lackluster wage growth. Meanwhile, married women have streamed into the workforce, racking up substantial gains in employment and more than doubling their yearly earnings.

A popular view is that these trends are related. That is, the big reason why wives are working more is to compen-

HOW EMPLOYMENT GREW AMONG MARRIED WOMEN



sate for their husbands' flagging earnings and shore up family incomes.

It ain't necessarily so, contend economists Chinhui Juhn of the University of Houston and Kevin M. Murphy of the University of Chicago. Their research shows that it's the wives of middle and high-wage men who have posted the heftiest increases in employment in recent decades—even though low-wage men have suffered the largest drops in earnings and employment.

The shifting trends among low-income families are particularly intriguing. The economists found that it was in the 1960s, when their husbands' earnings rose by 42%, that wives of low-wage men (bottom 20% in earnings) enjoyed the fastest employment growth. By contrast, when their husbands' earnings fell sharply over the next two decades, their own entry into the labor force also slowed substantially.

Wives of men with average and high earnings, on the other hand, accelerated their entry into the workforce in the 1970s and 1980s. And the biggest gains in employment occurred among those whose husbands were at the high end of the income range—men whose real

wages rose by 15% as the wages of the bottom fifth of male wage-earners declined by 29%.

How can these diverse trends be explained? The thesis that married women were working more in order to maintain household incomes seems most applicable to women with husbands in the middle earnings range, says Juhn. Real wages for men in this group were stagnant in the 1970s and 1980s, and it was only a sizable surge in labor force participation by their wives in response to greater opportunities for women that allowed their families to post modest income growth.

By the same token, it's clear that working wives of high-earning men aren't responding to shortfalls in their husbands' incomes. Rather, noting that such women tend to be highly educated, Juhn and Murphy think growing demand and rising wages for high-skilled workers of both genders are the likely factor luring them into the job market.

As for women married to low-wage men, the data show that their increased earnings did partly offset the sharp declines in their husbands' pay, suggesting that they would have liked to work even more. But the researchers theorize that the same demand shift toward high-skilled workers that hurt low-wage men also hurt their wives.

In sum, shifting opportunities for women of varying skill levels explain a lot more about their labor market participation than do their husbands' wages.

THE REWARDS OF HOMEOWNERSHIP

A study finds lots of social benefits

Should the federal government and local jurisdictions provide tax breaks and other subsidies to encourage homeownership among the public? To the majority of American households that own their homes the answer is a resounding yes. But many economists disagree, arguing that the home mortgage interest deduction, for example, is inefficient and inequitable.

Those who favor mortgage tax breaks and government efforts to promote homeownership, on the other hand, claim that homeownership provides indirect benefits or "positive externalities"—benefits that redound to the welfare of society as a whole. In a new study, Denise DiPasquale of the University of Chicago and Edward L. Glaeser of Harvard University provide

evidence that owning a home does indeed appear to build a sense of community and make people better citizens.

Using survey data and controlling for age, race, gender, income, marital status, having children, and other variables, two economists find that homeowners are 10% more likely than renters to work to solve local problems, or their local congressman by 1%. They're also more likely to vote in elections, attend church, garden, join nonprofessional organizations.

Predictably, homeownership affects the shape of local government spending. The researchers report homeowners tend to favor lower city budgets and welfare outlays but less spending on schools and highway.

Interestingly, the positive effects of homeownership appear related to negative impact on mobility. The more people live in their own home, the likely they are to engage in activities that improve their communities.

PROFITS COULD WEAKEN FASTER

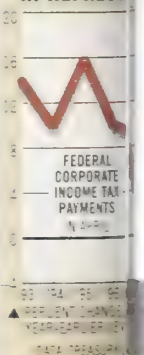
Are April tax payments an omen?

With the federal government reporting record surplus receipts of nearly \$125 billion in April, many Streeters have been busy projecting fiscal year surpluses of \$50 billion and higher. What has generally escaped attention, notes economist William Sullivan Jr. of Morgan Stanley Witter & Co. is a "startling shift" in corporate income tax payments in April.

Specifically, the quarterly estimate of corporate tax payment fell on a year-over-year basis even as individual income tax payments in April surged by 18%. While the drop was just 0.2%, it was the first such decline in quarterly payments in nine years.

Since corporate tax receipts were up 14.3% in December, the key question is whether the April drop was an aberration or a sign of rapidly opening profit erosion. A partial answer, notes Sullivan, will be provided by the next quarterly payment, due this

A STARTLING DROP IN TAX RECEIPTS



When the grass
is greener
on the other side
of the fence,
it may be that they
take better care
of it there.

— Cecil Selig



ZURICH



Going beyond business as usual. Providing you with innovative insurance, financial protection and investment management. Globally. And locally.

The Zurich Group. Building relationships, solution by solution.

WORK THE WEB



LOvE AND DEAtH in Akron, Ohio.

The pharmaceutical sales rep is dead. Exhausted.

Dog meat. Lying on the bed, he thinks about his day. His flight was delayed two hours. He

went into the club lounge and connected to ¹(the company intranet to review shipping status

on pending inventory) via the Web. He ²(e-mailed) his customers to inform them their

deliveries would arrive early. He lugged his carry-on to the gate. He wedged himself into

a coach seat. He arrived at his sales call just in time, only to find his client was running an hour

late. He tweaked his presentation, checking his competitors' Web sites, and ³(incorporated key

points into his pitch). He made the presentation. He went to the hotel and the smiling clerk

gave him a smoking room with twin beds instead of the non-smoking king he had reserved.

He turned on a rerun of *Love, American Style*. He connected to the ⁴(contact management

system), updated his customer file and sent a call report to the global sales team. He con-

connected to the company benefits intranet and ⁵(calculated the balance in his 401k plan). It

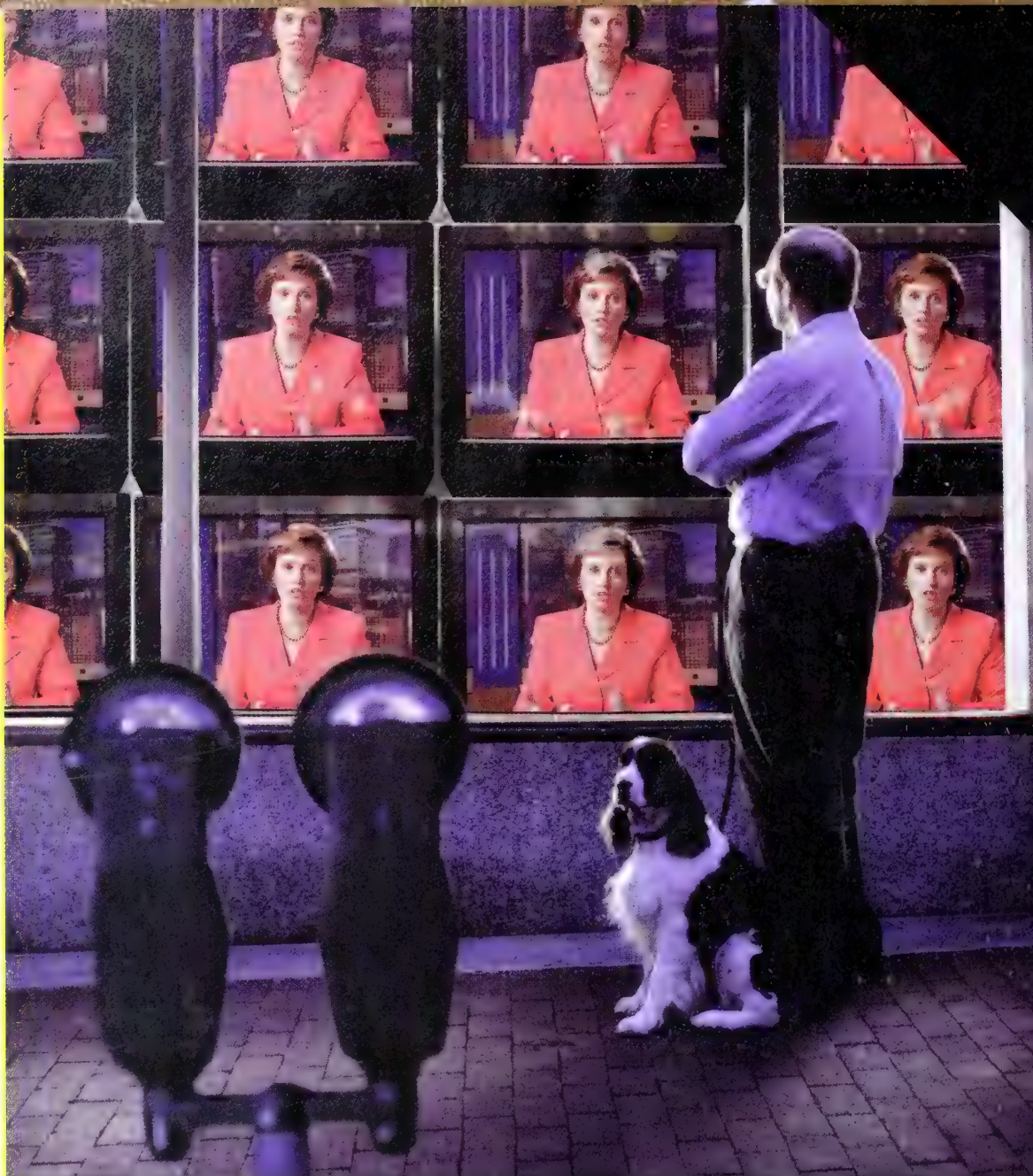
was up 4.5%. He falls asleep and sleeps soundly until his next wake-up call. At 5:30 a.m.

THE ⁶(BEST PARTS) OF HIS DAY WERE MADE POSSIBLE BY LOTUS.

¹Lotus Domino® Web Application Server with IBM DB2® UDB back-end. ²Lotus Notes® mobile messaging. ³Notes replication. ⁴Domino-based Contact Management application developed by Lotus Business Partner. ⁵Lotus eSuite™ spreadsheet applet. ⁶www.lotus.com/worktheweb.



We Welcome
Our New
Sponsor
Roadway
Express



If you didn't need to know this stuff,
we wouldn't interrupt your weekend.

Somewhere right now, business news is breaking that will have an impact on your life.
That's why there's "This Week in Business" on PBS. Join host Sheilah Kast
for the business news you absolutely need to know.

This Week In Business

Produced by WETA Washington, D.C.
in association with

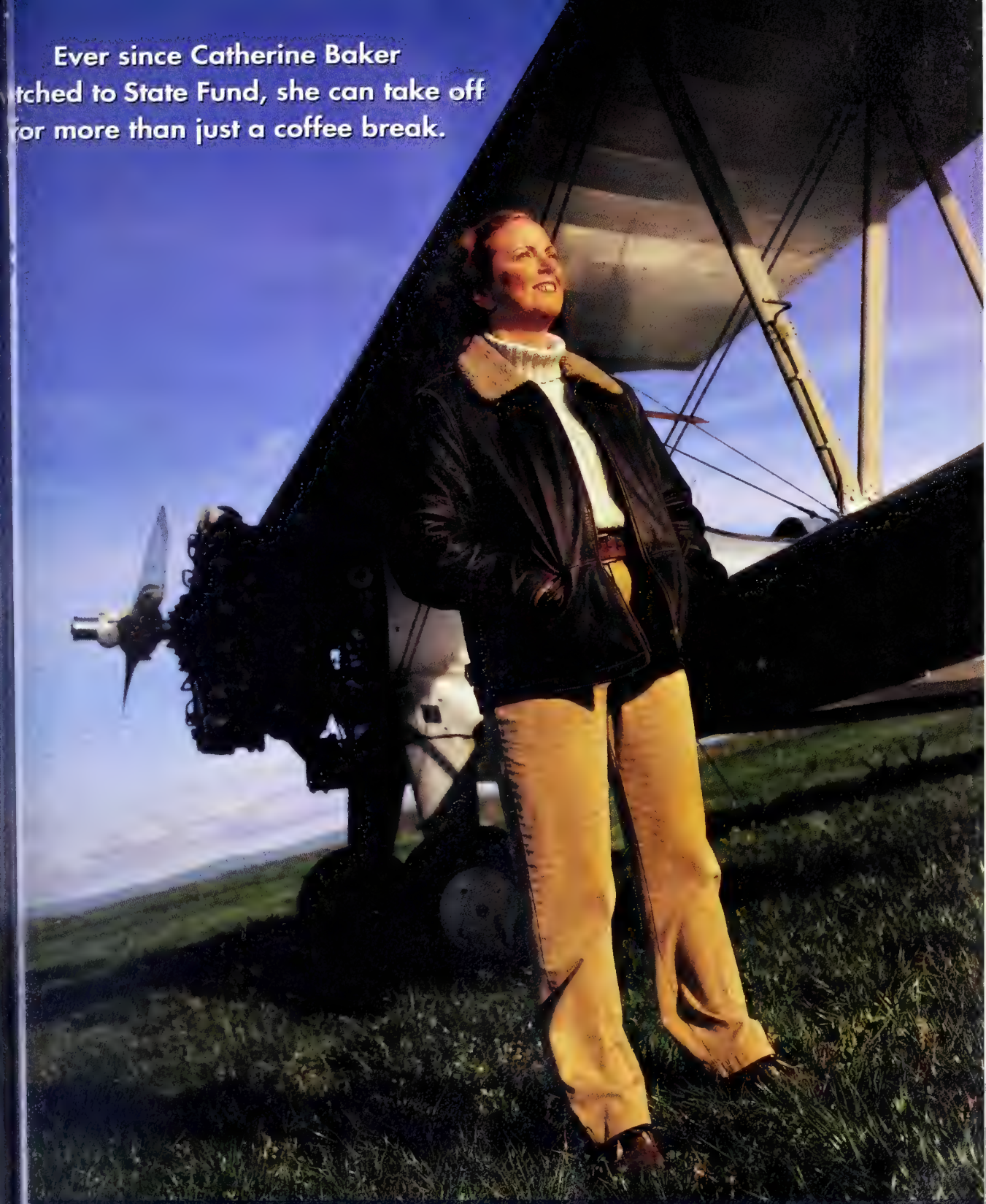
BusinessWeek

Weekends on PBS.

Corporate funding provided by

ROADWAY
Express

Ever since Catherine Baker
switched to State Fund, she can take off
for more than just a coffee break.



for freedom. It's what you feel when you know State Fund is taking care of your workers' compensation
insurance. Maybe that's because State Fund has over 80 years experience – that's more than any carrier in
California. And with offices statewide, personalized help is never very far away. No wonder we're the choice
for over 220,000 employers. For more information, just call your broker or 1-888-STATE FUND.

STATE
COMPENSATION
INSURANCE
FUND

Get more. Worry less.



Give us yours on America's future.

If you're concerned about Social Security, health care, taxes and other issues facing our country, here's a unique opportunity to give your two-cents' worth. Come to "Building A Better Future: An Exercise In Hard Choices." You'll learn more about the challenges America faces as our population ages. And you'll get to voice your opinions in a comprehensive report to the President, Congress and the media. Participants will include distinguished economic and political experts on both the national and local levels, representing a wide spectrum of views. For more information please call (202) 547-4484, or visit our web site at www.americanexpress/advisors.com.

A joint project of the Committee for a Responsible Federal Budget and American Express Financial Advisors

**COMMITTEE FOR
A RESPONSIBLE
FEDERAL BUDGET**

Norman, OK • Long Beach, CA • Cincinnati, OH
Denver, CO • Dallas, TX • Greensboro, NC • Seattle, WA
New York, NY • Boston, MA • Ft. Lauderdale, FL



**Financial
Advisors**

A small fly is perched on the top edge of a white rectangular sign. The sign is mounted on a wall and has the words "CALIFORNIA LEGISLATURE" printed on it in a serif font. The sign is slightly tilted to the right.

CALIFORNIA LEGISLATURE

IT'S THE NEXT BEST THING TO BEING A FLY ON THE WALL.

Keeping track of fast-moving legislation—or even slow-moving legislation—challenging, at best. Then, how do you distribute that information in time for your people to take any action?

The simple solution.

Introducing IRIS. It's the easiest, most dependable way to connect all the members of your organization with their legislators.

It's like having your own customized Internet.

Called INTRANet. And it works just like the Internet, with one important difference: only the members of your organization have access to it.

Conduct on-line conferencing. Track bills and voting records. Send letters by fax or e-mail directly to the California Assembly and Senate.

Interactive advocacy, 24 hours, 7 days a week.

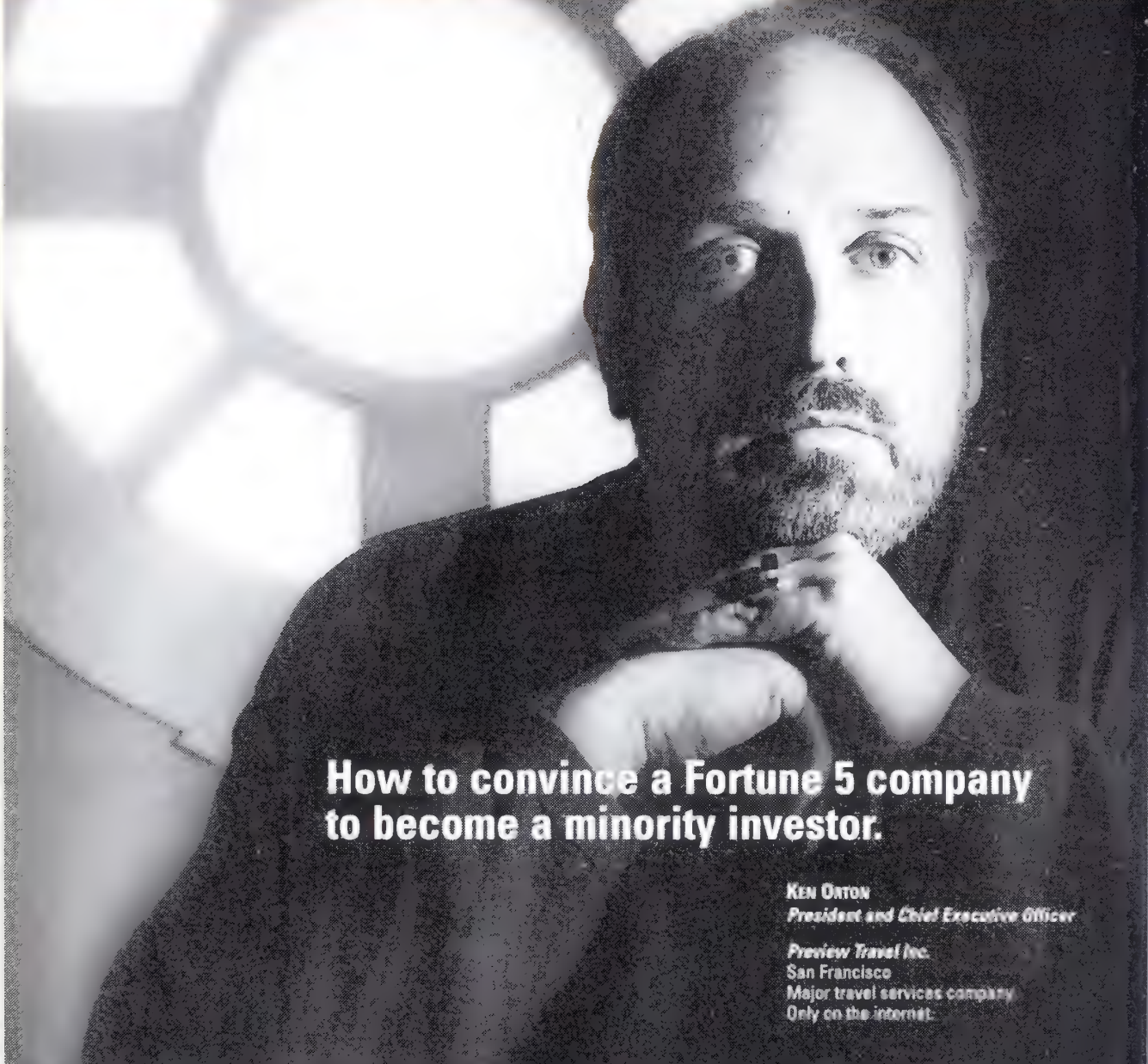
Exclusively from IRIS: Legislative Information Realtime Advocacy. LIRA puts the power for social change in your hands.

Instant access to important information. No one makes it easier.

**Put a bug in your manager's
ear to call (916) 635-5690.**



Integrated Realtime Information Services
www.iris1.com



How to convince a Fortune 5 company to become a minority investor.

KEN ORTON
President and Chief Executive Officer

Preview Travel Inc.
San Francisco
Major travel services company
Only on the internet.



GE Capital *Equity Capital Group*

"Breakthrough businesses on the Net benefit from major league private equity investors who understand the dynamics of growth. They know what's needed, financially and strategically."

Named CEO in 1997, he combined new private equity financing with the successful launch of the company's initial public offering.

"We convinced GE Capital that where we were headed and how we planned to get there made sense. For both of us."

Ken Orton saw we could create growth opportunities for his online travel service aimed at leisure and small-business travelers. He knew we could invest from \$5 million to \$50 million for a minority owner-

ship stake, if the conditions were right. But he also knew our investment could give his company an extra edge. Like a strategic relationship with Retailer Financial Services and Consumer Financial Services of GE Capital.

If your business is ready for equity capital from a strategic investor, call us at 1.888.809.8500, or e-mail us at equity@gecapital.com.

And be sure to check our web site at www.equitycapital.com for more information.

**Private equity at GE Capital.
A window of opportunity awaits.**

To find out how Preview Travel has become one of the 50 largest U.S. travel agencies in less than two years, visit their web site at www.previewtravel.com. © 1998 General Electric Company. All rights reserved. Fortune is a registered mark of Time Inc.



A respected international sport.

BERGER/BIAM'S
LATEST NUMBERS
WILL IMPRESS!

Call 1-800-333-1001 for
information on this no-load
international mutual fund.

EXEC A911

The Berger/BIAM... companies located
in well-regulated foreign markets. Why not let us help you score your financial goal? For a prospectus on
this no-load fund, visit our website at www.bergerfunds.com, or call 1-800-333-1001, Dept. A911.

AVERAGE ANNUAL TOTAL RETURNS AS OF 3/31/98*

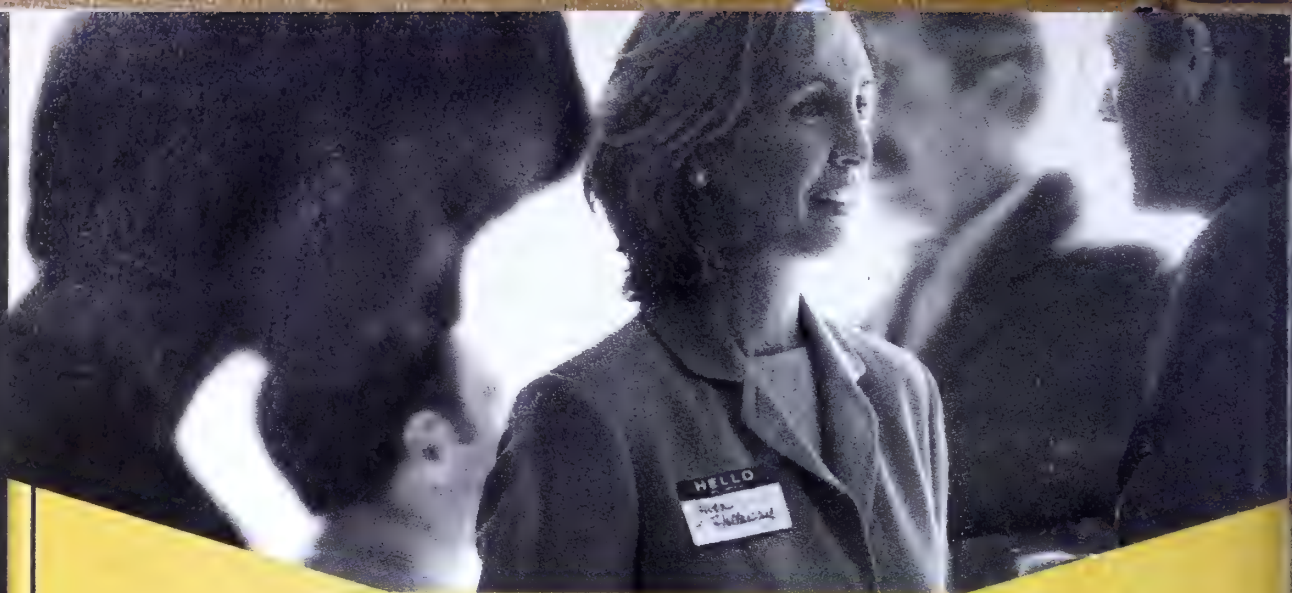
BERGER/BIAM INTERNATIONAL FUND: 16.5% for one year, 17.2% for three years, 14.4% for five years and 13.5% since inception (7/31/95)

*Past performance is no guarantee of future results. The returns shown are historical and in part reflect the performance of a pool of assets advised by the Fund's subadvisor, Bank of Ireland Asset Management (U.S.) Limited ("BIAM") for periods before the Fund commenced operations on October 11, 1996, adjusted to reflect any increased expenses associated with operating the Fund. The asset pool was not registered with the Securities and Exchange Commission and is not subject to the investment restrictions imposed by law on registered mutual funds. If the pool had been registered its performance might have been affected. Investment return and share price will fluctuate, and redemption value may be more or less than the original cost. The special risks involved in investing, such as currency fluctuations and political and economic uncertainty, are discussed further in the prospectus. Investments in the Berger/BIAM Fund are not insured by the Federal Deposit Insurance Corporation, are not deposits, and are not obligations of, or endorsed or guaranteed in any way by, any bank. This is not an investment product available for purchase. Berger Distributors, Inc. - Distributor. ©1998 Berger Associates, Inc. Call for a prospectus for more complete information including all management fees, charges and expenses. Read it carefully before investing.



1-800-5-NO-LOAD

EXEC A911



**MARKETING
AND PRODUCT
DEVELOPMENT
SHOULDN'T MEET FOR
THE FIRST TIME
AT THE COMPANY
CHRISTMAS PARTY.**

Just because everyone is
on one phone we haven't
communicated. They're
on the same team, they
share a common goal,
making the world a
better place.

Without realizing it, we've

created a barrier between our

marketing and product

development. And we've

missed the opportunity to

work together to create

the products and services

that our customers need,
instead of a wide variety
of conflicting agendas.
Keeping in mind as your
company grows. For
more than 40 years,

we've been guiding management through

complex times in every industry and

every world. And we deliver results

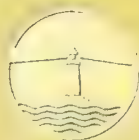
proven by the fact that today more of the

world is looking for clients who will

work with us. To learn more about

what we can do for you, please

Consultants For



Transitional Times.

BOOZ·ALLEN & HAMILTON

JAMES C. COOPER & KATHLEEN MADIGAN

ROSE PROFIT FORECASTS MAY BE TOO ROSY

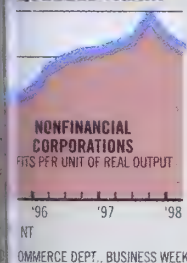
Rising labor costs, Asian woes, and slower growth will hit earnings

U.S. ECONOMY

If you are one of the millions of stock market investors in the U.S., the Commerce Dept. has some sobering news for you: In the fourth quarter of last year and in this first quarter, the economy grew at an average annual rate of 4.2%, and profits fell in both quarters. If earnings declined in an economy that strong, what is to happen to profits in coming quarters as the economy slows?

As part of its first-quarter update on real gross domestic product, which showed 4.8% economic growth in the first quarter instead of the 4.2% originally reported, the Commerce Dept. said that pretax profits fell 2.6% from the fourth-quarter level, which was in turn down 2.1% from the third quarter. That was the first two-quarter decline in earnings since the 1990-91 recession.

PROFIT MARGINS GET QUEEZED AGAIN



11.9%, and the expected fourth-quarter gain is 11.1%. Those numbers imply a very optimistic 11.1% increase in reported earnings in 1998 vs. the full-year 1997 showing, when earnings rose 2.6%.

WHY MAKE THESE EXPECTATIONS

More rose-colored than rational is that companies are facing far fewer profit hurdles than they did a year ago. Clearly, the weakness is hitting the earnings of U.S. multinationals and exporters. But the greater problem is at home. Intense labor-market pressures are fueling inflation in both wages and benefits, the biggest problem for most companies, at a time when pricing power is waning. How else can you explain a dearth of profits in such a strong economy?

What's doubly disturbing is that the Commerce Department's numbers show that each unit of the output sold by nonfinancial corporations is generating less profit than before. Unit profits, a kind of economywide profit margin, tumbled for the second quarter in a row, to the low-

est level in two years. That squeeze coincides with a considerable pickup in unit labor costs in the fourth and first quarters, because compensation is rising so fast that even good gains in productivity cannot offset it.

This margin erosion will continue. Amid exceptionally tight labor markets, wage growth will only accelerate further. And now, after years of slowing, benefit costs are also picking up. Recent gains in the medical-care component of the consumer price index and hikes in health-insurance premiums suggest the downtrend in health-care costs has ended.

The disconnect between profit performance and stock prices has long been on the mind of Federal Reserve Chairman Alan Greenspan. He may address that concern once again in his June 10 testimony before the Joint Economic Committee. The markets will also be listening very closely for any hints that the Fed chief thinks the economy is not slowing enough to loosen the labor markets.

ANY SLOWDOWN IN THE ECONOMY

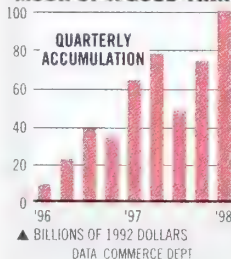
would also dampen the profits outlook, since even a small dropoff in the economy's pace can cause big changes in profits. For example, for all of 1995, economic growth slowed to 2% from 3.5% in 1994, and profit growth plunged from nearly 40% to 11%—even as margins were expanding. Now, the pace of GDP seems to be easing a notch—and margins are contracting.

A key factor in slower economic growth will be inventories. Stockpiles surged last quarter by a record \$100.7 billion (chart), far greater than the \$77 billion rise first reported. The buildup suggests that some downward adjustment to output will be necessary this quarter and next.

But at least for now, inventories do not look overly troublesome. That's because first-quarter imports also were revised substantially higher, suggesting that imports accounted for much of the inventory hike. That means U.S. producers will not bear the full burden of cutting down stockpiles. Also, strong U.S. demand will support a relatively high rate of inventory growth, which is why inventory-to-sales ratios generally remain manageable.

If corporations are having a tougher time making

INVENTORY GROWTH: TOO MUCH OF A GOOD THING?



Business Outlook

money in these boom times, then who is benefiting? Certainly, federal and state treasuries are realizing tax-revenue windfalls, but it's consumers who are gaining the most.

Real disposable income rose 0.2% in April, or by a solid 3.8% from a year ago. When profits peaked in the third quarter of last year, 70.5% of national income went to labor compensation. Now, the share is up to 71.2%. First-quarter profits, meanwhile, accounted for 11.9%, a drop from 12.3%. The differences may look small, but they are a decided shift from the previous trends of this expansion. And with demand for labor so strong, compensation will continue to increase its share.

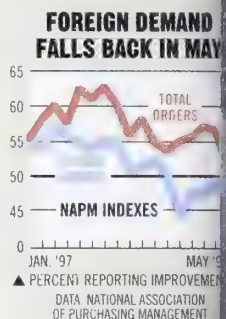
Pay gains are boosting spending. Real purchases of goods and services increased 0.4% in April. That's a healthy increase following the revised buying surge of 6.1% in the first quarter, the largest advance in six years. And the jump in May vehicle sales to an annual rate of more than 16 million, the best showing this year, suggests that real consumer spending is growing at an annual rate of at least 4% this quarter.

CONSUMERS' OPTIMISM, stemming from the best labor markets in a generation, has been particularly beneficial to the housing industry. For builders, the catchphrase of 1998 is: If you build it, they will buy. Sales of new single-family homes jumped 5.2% in April, to a record annual rate of 888,000. And the inventory of un-

sold new homes slipped to just 3.9 months, close to record low of 3.8 months set in February. The pace of home buying means that consumer spending on house-related goods will remain strong.

Robust domestic demand is partly offsetting the fallout from Asia, whose economic crisis is holding down exports and slowing U.S. industrial activity. The National Association of Purchasing Management's business index dipped to 51.4% in May from 52.9% in April, the second consecutive drop. The purchasers said that new orders grew at a slower pace and that export orders declined for the fifth month in a row, reflecting Asian weakness (chart).

To be sure, the futures of Asia's economies grow murkier with every new announcement of falling GDP and social unrest. In the real economy, the drag from Asia is, to a certain degree, a plus, since it neutralizes some of the energy radiating from the domestic sector. But for Wall Street, the turmoil comes at an especially bad time. That's because the uncertainty from Asia will reinforce the emerging jitters over rising labor costs. And any resulting disappointment in profits could weigh heavily on stock prices.



CANADA

LOW RATES, CHEAP DOLLAR—BIG SURGE

Despite January's ice storms in the East and March's flooding in Quebec and Ontario, the Canadian economy surged in the first quarter. Fueled by low interest rates, a cheap Canadian dollar, and less restrictive fiscal policy, growth should remain strong through yearend.

Real gross domestic product rose at a greater-than-expected annual rate of 3.7% last quarter, led by a surge in business construction, plus good gains in consumer

spending and exports. Economists expect 3.3% growth for all of 1998, compared with 3.8% in 1997.

That pace will continue to lift employment, which through April posted the largest three-month in-

crease of the expansion. Those gains, helped by rebounds from ice storms and fourth-quarter strikes by teachers and postal workers, lifted first-quarter personal income by the most in any quarter in a decade.

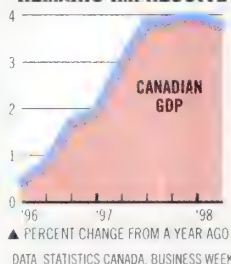
Canada's 8.4% jobless rate, down from 8.9% in the fourth quarter and 9.5% a year ago, will continue its slow decline.

Even so, the jobless rate shows plenty of slack, meaning that the economy can grow strongly without lifting inflation. April consumer inflation was 0.8%, held down by energy and commodity prices. And still-high joblessness is a key reason why the Bank of Canada appears to be in no hurry to lift in-

terest rates further. BOC Governor Gordon Thiessen implied as much in the Bank's May monetary policy report. In addition, while interest rates remain low, they are up 1.5 percentage points since October, and those hikes will keep growth from boiling over. Finally, growth will be restrained by softer exports to Asia.

So far, nothing seems to be helping the weak Canadian dollar at least relative to the U.S. dollar. The currency stood at a low 68.5¢ U.S. on June 1, despite an upbeat first-quarter report on the current account deficit, which came in well below expectations at C\$15.4 billion. Still, relative to other currencies, the dollar looks firmer, supported by Canada's improving fiscal outlook and prospects for solid growth and low inflation.

ECONOMIC GROWTH REMAINS IMPRESSIVE



**“I need
a 401(k)
provider who
respects
my time.”**

**If yours doesn't,
retire them.**



→ **plan ahead.**

It's frustrating when you have to call your 401(k) provider three times, talk to four different people, just to get one answer. Not with The Principal Financial Group.[®] When you call us with a question, you get a quick, accurate response from one familiar voice. Someone who is directly accountable for your plan.

Combine this personalized service with our low fees plus an impressive array of investment options — including name brand funds. That's one great value from a company with over a century of financial expertise. No wonder more employers choose us to administer their 401(k) plans than any bank, mutual fund, or insurance company.* So give us a call at 1-800-255-6613. Or contact us at www.principal.com on the Internet. As for your present provider, wish them a lengthy retirement.

→ **get ahead.**

Plan Ahead. Get Ahead.SM

thePrincipal[®]

*Financial
Group*

401(k) and Pension • Home Mortgages • Life, Health, Dental and Disability Insurance • Annuities • Mutual Funds

©1998 Principal Mutual Life Insurance Company, Des Moines, IA 50392. *CFO magazine, April/May 1997, Senior Financial Executive Ranking. Products and services offered through Principal Mutual Life Insurance Company (The Principal), its subsidiaries and affiliates. Mutual funds distributed through Princor Financial Services Corporation (member SIPC). Health care products not available in all states.

A WORLD OF TR

Unshackle those capital markets now and reap the rewards of the global economy. That has been the mantra of the 1990s, and for much of the decade it has produced a surge of growth in Asia, Latin America, and Eastern Europe. In one of the greatest transfers of wealth ever from rich nations to poor, cash-starved companies and governments in developing economies found themselves showered with billions of dollars from Western banks and portfolio managers.

Nearly a year after the onset of the Great Asian Meltdown, the legacy of those years of excess is still wreaking havoc in the global economy. In fact, the real contagion may only be breaking out now. As the once-mir-

cue Russia, prompting panicky investors to pull funds out of Eastern Europe. Then there is Japan, where a sinking yen and mounting debt crisis suggest more storms are brewing in Asia.

Now for the scary part: There doesn't seem to be much the West can do right now to halt the epidemic. The International Monetary Fund, for two decades the guardian of the world financial order, is fast running out of money and credibility. No sooner had the postmortem begun over the agency's failure to save Indonesia than it is facing the prospect of a second collapse in Russia in five years. Another Moscow bailout would pretty much exhaust the \$15 billion the IMF has left. And

the world financial system—and send Western policymakers back into crisis mode. When G-7 leaders gathered in London just a month ago, Treasury Secretary Robert E. Rubin and his counterparts were buoyed by a Japanese stimulus package and the U.S. Senate approval of an \$18 billion injection into the IMF. But the Japanese economy hasn't taken off, the yen has fallen, and House Republicans show no signs of passing the IMF funding package. As one IMF official: "There are a lot of nervous people around here."

Most immediate is the question of a Russian bailout and whether it is indeed neces-

BUILDING TO AN ECONOMIC CRESCENDO

JULY 2, 1997

Thailand gives up defense of baht, triggering a currency free fall in other Southeast Asian nations with high short-term foreign debts.



CRISIS: Prime of Thailand governs



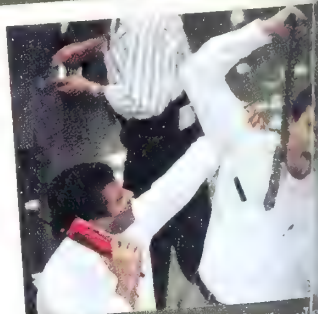
RATTLED: Hong Kong investors follow the market's gyrations

OCT. 20, 1997

Fears Hong Kong may have to devalue send the Hang Seng index crashing, rattling markets from New York to São Paulo.

OCT. 30, 1997

Brazil ends up doubling interest rates, to 43%, after revealing it had spent \$8 billion in futile effort to stem a run on the real.



NO JOKE: São Paulo traders

acle economies of Southeast Asia and South Korea sink into their worst recession in the postwar era, prices of most commodities have collapsed to 10-year lows and equity markets have been gouged from South Africa to Argentina. Leaders of the Group of Seven industrialized countries are scrambling to res-

the agency could cail in an additional \$50 billion in previous pledges—still not enough if the contagion spreads to Latin America and Eastern Europe. "We have the unsettling prospect of the world's firemen turning on the water and nothing coming out," says Marcus Noland of the Washington-based Institute of International Economics.

The crisis is prompting a far-reaching debate over how to restore confidence in

sary (page 1) But even if the IMF can go to there again, its ability to calm a crisis seems limited. Three failed rescue programs in Indonesia ended in violence, the ouster of President Suharto, and a complete economic collapse. Unlike the 1995 success in Mexico, the IMF's Asian bailouts haven't restored investor confidence in the region's existing markets or restarted exports. (p

BLE Asia is sinking. Commodity markets are tanking. Russia's economy is lurching. And the West seems unable to do much about it

s have not worked," says Frank, chief executive of investment efferies Inc. "The disaster in In- a is very persuasive evidence." underlying fear is that the IMF is its depth in dealing with the type es it now faces: Debt bombs by reckless foreign borrowing private sector. In previous Latin bad debts were run up by proflig- governments. So the IMF's job was ut: Provide bridge financing to government from going bank- before it can restructure loans reign banks.



es: Unhappy in Seoul

7 The l Mone- intervenes crisis area, the bailout year.

MAR. 17, 1998
Oil prices fall below \$13 per barrel, the lowest in a decade, pummeling producers such as Indonesia and Russia.

Since 1990, private capital the emerging markets have bal- by more than sixfold, to more 50 billion in 1997. Most of that o private companies. And given que financial systems of most g markets, nobody—their govts included—has a clear fix on s been borrowing what.

DIATIC HAIRCUT. "The crisis has ed a wholesale rethink of how ld capital markets can be man- dederal Reserve Chairman Alan an calls for a new "international ncial architecture" involving

greater transparency of private capital flows and ways to make hot money less disruptive. Washington think tanks and Wall Street financiers are spewing out white papers offering reforms of their own. They range from transforming the IMF into a watchdog of private borrow- ing to abandoning the IMF altogether as a lender of last resort and simply letting the market sort out any mess.

The Brookings Institution recom- mends that if IMF inter- vention is required,



BOWED: Hashimoto

APR. 24, 1998
Markets are disap- pointed by Tokyo's \$128 billion stimu- lus plan. Fears of a weakening yen rat- tle regional mar- kets and dash hopes for an Asian export rebound.

MAY 14, 1998
Riots break out in Jakarta after sharp hikes in fuel prices. With economy and IMF program in shambles, President Suharto resigns.



FUELING THE FIRE: Rioting in Indonesia

MAY 19, 1998
Commodity markets hit four-year low and yen touches 137, raising new fears in Mexico, Russia, and other emerging markets.



DESPAIR: Moscow

MAY 27, 1998
Scrambling to stem its financial crisis, Russia triples inter- est rates to 150% and hints it needs help. IMF response is cool.

ure to provide liquidity to our economy in the 1930s."

To be sure, the Asian flu doesn't yet amount to a full-fledged global crisis. Europe seems to be going strong (page 42). And the U.S. is only now showing slight signs of slowing. Meanwhile, its stock and bond markets are actually benefiting as investors flee to safe Western havens. And while bourses have been jolted in emerging markets such as Mexico, Brazil,

foreign banks with outstanding short- term loans be required to roll them over or take an "automatic haircut" in the form of a stiff fee for calling them in. Former Salomon Brothers Inc. chief economist Henry Kaufman even argues that the IMF is so impaired by politics and its ties to banks that an entire new, quasi-autonomous agency should be established to monitor international finan- cial institutions and rate them on credit- worthiness. "There's a huge volume of information lenders aren't getting that is off the balance sheet," says Kaufman.

BusinessWeek ONLINE

For daily business news, visit businessweek.com or AOL: Keyword: BW

Poland, and the Czech Republic, they lack the dangerously high levels of short-term private debt and overvalued currencies that led to Asia's debacle.

But try convincing U.S. manufacturers the picture is really rosy. They are bearing the full brunt of the yen's 16% decline against the U.S. dollar over the past year. Many economists in Washington and Tokyo would hold the line at 130. Instead, the yen is now near 140—and could hit 150 by yearend. And Treasury's Rubin does not seem hasty to intervene. "The answer to the yen lies in Japanese economic policy and the performance of the Japanese economy," he told reporters during a visit to Harvard University on June 3. Translation: It's in the interest of Japan and its ability to export that the yen remain weak.

To U.S. manufacturers, the result is predictable: Japan will continue to pump up exports to the U.S. while resisting U.S. products at home. Slumping sales of razors to Japan is one of the biggest problems facing Gillette Co., says Chief Executive Alfred M. Zeien. He also believes the yen "will be the No. 1 problem for the U.S. economy."

What really peeves industry is that Rubin seems to be acquiescing in the yen's decline, as he did in 1995. "It's irritating that our government just stands by and watches," says American Automobile Manufacturers Assn. President Andrew H. Card Jr., Detroit's chief Washington lobbyist. "We want Treasury to recognize their responsibility to have a positive impact on this currency crisis." At 140, Card figures Japan's carmakers have at least a \$7,000 cost advantage in the U.S. over comparable Detroit models—vs. \$4,000 when the yen was at 125.

"HEDGEHOG." There are signs Washington is starting to complain about the yen. But here again, intervention may be too late. Tokyo-based economist Chris Calderwood of Jardine Fleming Securities says the economic news is now so bad that "you sense that Japan's economy is a hedgehog curling up and waiting for the truck to roll over. It's going to be a long, ugly summer."

For the rest of Asia, the situation is downright hideous. Countries that already were leveled by last year's Asian meltdown now face another round of currency devaluations. After rebounding smartly after its \$57 billion IMF bailout in December, Korea's stock mar-

ket has crashed by nearly 50% since Mar. 1 to an 11-year low. Hopes of a big export comeback are dimming as well because exporters are so squeezed for cash they can't fill orders.

Even countries in Latin America and Eastern Europe that are making the right moves can no longer inoculate themselves against the crisis of confidence that's affecting developing-market bourses. To many foreign investors, "there is only one country out there—and it's called the emerging market," says Peter Hakim, president of the Washington-based think tank Inter-



FENCE-SITTING Rubin seems to be acquiescing to the yen's decline—and U.S. manufacturers are getting impatient as Japan's price advantage increases

American Dialogue. "It's very hard for countries to stave this off."

Brazil is a case in point. After last October's market crash touched off a run on other Third World currencies, Brazil spent \$8 billion in reserves trying to protect the real. It then bit the bullet and doubled interest rates, to 43%. The results are painful—growth forecasts for this year have been slashed from 3% to 1.5%, and businesses have been laying workers off by the thousands. But Brazil's finances have improved

enough that it has since been able to lower rates and boost reserves to \$10 billion. Even so, Asian-contagion helped send Brazilian stocks down 15% in May.

Despite the pain now, free-market purists say, the developing nations emerge stronger—and ready to compete better in the global economy. Not for the financial crisis, Indonesians would not have dislodged the rupt rule of President Suharto, South Korea and Thailand wouldn't have been forced to bring their financial terms into the 21st century. "What we are talking about is a revolution," says Walter T. Molano, head of Latin research at SBC Warburg. "And there is no such thing as a controlled revolution."

EXPOSURE. There also is a dark view. Since it will take many years for developing countries to build the regulatory agencies and financial systems capable of coping with today's volatile price and capital flows, those who already opened their doors will remain exposed to new jolts. As a result, many of the immense gains over the past two decades in poor countries may be reversed. "Repeated financial shocks and falling commodity prices will indefinitely widen the gap between the developed and developing world," warns Korea Economic Research Institute economist Huh Chan Guk.

Even some of the free trade's strongest champions say the globalization crusade may have gone too far too fast. Columbia University economist Jagdish Bhagwati, for example, argues that emerging markets have clearly benefited by liberalizing their imports, services, and foreign investment in industry and electronics markets. But he contends they made an enormous error in ensuring developing countries lift all curbs on capital outflows, enabling foreign lenders and managers to whoosh billions of dollars in and out of these economies. "These meltdowns could have happened if Alan Greenspan were managing these economies," Bhagwati says.

The arguing over the proper pace of financial liberalization will surely go on for years. But a cure for the Asian virus needs to be found soon, because the virus shows no signs of abating.

By Pete Engardio in New York, Deal Foust in Washington, E. Thornton in Tokyo, Ian Katz in Sao Paulo, Keith Naughton in Detroit
bureau reports

SIA

ERO OUR FOR OSCOW

Russia nearing fiscal
pse, it's clear that
ms have fallen far short.
the IMF bail out Yeltsin?

ie tension was excruciating in the
ornate halls of Russia's Central
Bank. In a highly unusual auction,
Russia sold \$84.6 million of Trea-
sury bills with maturities of just seven
and interest rates of 39.9% and
million in other bills. It was all
f a dramatic bid to lure foreign
al investors back to Russia's be-
red Treasury bond market, which
vernment depends on to finance
ring deficit. When the sale suc-
on June 3, it wasn't just Russian
s who breathed a sigh of relief.
ors poured back into the Russ-
ock market, pushing it up 8% in
y.

S, the government managed only
some time. Russia has a severe
y crisis, and any new shock could
he ruble to collapse. At the same
he government faces daunting
term challenges: It must sharply
ending and somehow force mil-
citizens—as well as major com-
—to cough up billions of dollars in
taxes. Until Russia solves these
anding problems, it faces the
et of recurring financial crises,
eventually, possible default.

BAND-AIDS. Despite the T-bill
nd a subsequent \$1.25 billion Eu-
sale—what staved off financial
r was the belief that G-7 finance
will take up a possible \$10 bil-
\$15 billion bailout at a June 9
g. Investors want the Interna-
monetary Fund or private banks
e up the Central Bank's \$14 bil-
reserves and rebuild confidence in
s finances. Over the past three
he country has become addicted
t-term borrowing. One result: In



late May, Moscow tripled interest rates,
to 150%, to prop up the ruble and keep
foreign money from leaving.

The heart of the problem is Russia's
\$70 billion in outstanding Treasury bills
with short maturities. That forces the
government to roll over \$6 billion to \$8
billion a month. Some \$20 billion of the
T-bills are held by foreigners—\$6 bil-
lion more than Russia holds in its re-
serves. If the foreigners lose confidence
in the government's ability to make
good on the debts or support the ruble,
they'll be gone. "Giving some liquidity

support to Russia is a necessary Band-
Aid," says George Dallas, managing di-
rector of Standard & Poor's Rating Ser-
vices for Eastern Europe, the Middle
East, and Africa. "But if the tax col-
lection and government-deficit problem
isn't fixed, they're going to need more
and more Band-Aids."

And if the Band-Aids don't stick? The
ensuing financial meltdown would likely
bring down President Boris Yeltsin's
new government. If the ruble collapses,
the Russian population would suffer
fresh privations, perhaps paving the

way for the election of nationalist politicians in parliamentary elections in 1999, and for President in 2000.

The specter of that instability persuaded President Clinton's top foreign policy advisers, led by Deputy Secretary of State Strobe Talbott, to push for a bold response. They fear that hard-line politicians could wind up with access to Russia's nuclear button if the ruble collapses. "Ruble stability has been the anchor of the economic program," says one U.S. official. "If that goes, Yeltsin's reforms have been discredited."

There are limits: As a condition for additional Western aid, for example, U.S. Treasury Secretary Robert Rubin is certain to demand solid guarantees that Russia will implement more radical reforms.

Also, if there is a rescue package, both the IMF and private banks will be called in, sources say. It could include a currency stabilization fund of around \$10 billion, as well as aid in restructuring short-term government debt. Banking sources say that Russia is already talking with institutions such as ABN

Amro and J.P. Morgan about a loan up to \$4 billion. Over time, analysts say Russia must convert high-cost ruble debt into longer-term obligations denominated in currencies such as dollars or German marks.

But any rescue will come with conditions. At the least, Yeltsin's Prime Minister Sergei V. Kiriyenko have to fulfill pledges to slash spending by \$12 billion and overhaul Russia's shaky tax system. Russia has had unrealistic budgets and continually failed to meet tax-collection targets. In the

EUROPE: GROWTH GETS OFF THE GROUND

Russia is tanking. Southeast Asia's crisis grinds on. Japan wallows in recession. Even the U.S. economy may lose steam in 1999. In this rough-and-tumble world, Europe suddenly looks like a runner emerging from a rugby scrum and heading for the goal. The Continent is expected to post solid 3% economic growth in 1998, half a point higher than last year and the best performance since 1990. More important, that growth rate could last through 2000 and beyond. "There are some very important fundamentals working in Europe's favor for the next three to five years," says Peter-Rudiger Puf, Daimler Benz's chief economist.

Could Europe be heading for a long-running expansion, U.S.-style? Some of the elements already have fallen into place. The move to a single currency has helped drive interest rates and inflation, projected at just 1.5% this year, to post-war lows. European consumers are finally starting to spend, and as corporate profits soar, government tax coffers are starting to bulge. Telecom deregulation, meanwhile, is cutting communication costs and spurring investment in the Internet and other new technologies, giving Europe's recovery some

New Economy hues. And booming stock markets are enticing smaller companies to go public, creating a whole new corporate stratum capable of generating job-creating growth.

Of course, much depends on whether Europe suffers major shock waves from the crises in Asia and especially in Russia, which has problems that could spread to Central Europe. And Europe's governments must make the most of the upturn, further liberalizing markets to attract more investment, cutting taxes, and sticking to austerity programs. "If governments really get their houses in order over the next four or five years, Europe could be poised the way the U.S. was" in the early 1990s, says Steven Englander, an economist with Salomon Smith Barney in London.

JOBS JOLT. For the next couple of years, it looks as though the recovery will spread beyond strong exports alone. Goldman, Sachs & Co. estimates that growth in Continental exports will fall to just 6% next year, down from 9.6% in 1997. At the same time, though, growth in domestic demand will hit 3.5% next year, double the 1997 level. "The European recovery is being sup-

ported by domestic demand, not new," notes Bernd Stecker, chairman at Germany's Siemens.

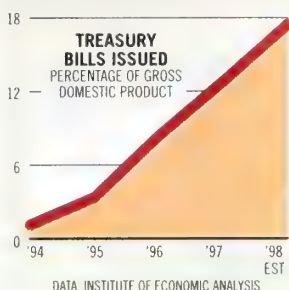
Business confidence also is improving. According to J.P. Morgan & Co., Continental companies' investment in plants and equipment will jump between 7% and 10% this year, up from less than 3% in 1997. "The injection in investment is adding a point to GDP growth," says London-based J.P. Morgan economist Michael Kasman. Germany's Daimler Benz, one, is in the middle of a three-year, \$7.3 billion program to add capacity to its auto factories, with 70% of the cost going into Germany.

The strengthening domestic economy already has helped Europe shake the Asia crisis so far. Analysts have ratcheted up their predictions of Continental corporate profit growth to full points since the depths of related pessimism earlier this year. They're predicting an average increase of 17% this year. London-based Goldman Sachs strategist Peter

Sullivan predicts a 1% rise next year, too, three points more than most of his peers. Europe also is finally starting to create some jobs. Goldman Sachs estimates that the Continent's unemployment rate will fall to 10.9% in 1999, down from a peak of 11.5% in 1997. In the long run, the jobs are coming from a new cycle of growth coming from their firms.



RUSSIA'S ADDICTION TO BORROWING



ter of 1998, for example, the government cited taxes worth of gross domestic t—compared with target of 10.8%.

speed up tax collection, Yeltsin has ed Boris Fyodorov lead the State Tax ice. The former Finance Minister fought to get Russian in-

n under control a few years ago. expected to drive companies that don't pay up into bankruptcy. The government has

team because it hasn't produced growth and jobs. Now, if the ruble plunges and inflation—just 8%, compared with 840% in 1993—spins out of control, the re-

also pledged to keep companies that don't pay their taxes from using oil pipelines. Meanwhile, if Yeltsin can't push tax reform through the Parliament, he may impose one by presidential decree.

Yeltsin has little choice if he is to save the ruble. So far, voters and opposition politicians have criticized Yeltsin's reform

formers will have lost the political battle.

At this point, the average Russian has hardly felt the financial crisis. Investors in stocks and bonds are primarily foreigners and rich Russians. Interest rates have little impact on most Russians, who don't have a mortgage or credit cards. If Russia gets financial help from the West, the government will gain a new chance to enact radical economic reform. If it fails to take up the challenge, Western investors—and Russian citizens—are likely to be unforgiving.

By Patricia Kranz in Moscow, with Thane Peterson in Frankfurt, Kerry Capell in London, and Dean Foust in Washington

1,596 jobs last year, or 27.6%.

Of course, Europe's recovery has points of vulnerability. Russia's meltdown could be dangerous if it spreads to Eastern Europe. That's because Europe's sales to Russia and

high-tech spending boom will peter out. One reason the U.S. expansion has rolled on for so many years is that 30% of economic growth has come from high tech, which improves productivity without pushing up wages.

These days, Europe is getting a similar boost from telecom deregulation, argues James

Richardson, European chief of U.S. networking company Cisco Systems Inc.

"You bring down phone costs here—and it's already happening—and this place could be in for real growth." But the reach of information technology is still far less than in the U.S. Meanwhile, the spending boom for the Year 2000 and euro conversions seems sure to wind down in 2001.

Still, over the next few years, says Stephen King, chief economist for London's HSBC Securities Inc., "we expect the same thing is about to happen in Europe that has happened in the U.S.: higher-than-expected economic growth with no inflation threat." That's the kind of pleasant surprise Europe hasn't had in years—and one that much of the world can only envy.

By Thane Peterson in Frankfurt, with Monica Larner in Rome and Stephen Baker in Paris

on
rong
ment
e economy
at a
yle
sion

eled by
soaring equity
markets and

capital funds. Finnish mobile

manufacturer Elcoteq, e, has boosted emixfold, to about

1991. And the vestment in Eu-

vert computer the euro and

ium transactions ftware and con-

innesses a lift. IBM 1,700 new work-

pe in the first rman software ecreased its mployment by

Eastern Europe are projected to hit 15% of the total exports last year, compared with 13% to the U.S. Perhaps even worse for Europe would be a major drop in the dollar. Goldman Sachs estimates that a 10% fall in the dollar knocks six percentage points off European corporate profit growth. And many analysts figure that if the euro's introduction on Jan. 1 goes smoothly, the dollar could fall as confidence builds in the new currency.

The other big worry is that Europe's

POSITIVE SIGNS FOR GROWTH...

CONFIDENCE With inflation of only around 1.5% this year, real wages are rising. A consumer recovery is building.

RESTRUCTURING Cost-cutting will boost corporate profits an estimated 17% this year, despite the Asia crisis.

UNEMPLOYMENT Joblessness is expected to fall half a point, to 11.4%, this year, and another half-point in 1999.

...AND HURDLES THAT LIE AHEAD

POLITICS If Socialist Gerhard Schröder replaces Helmut Kohl as German Chancellor in September, crucial reforms could stall.

CURRENCY A fall in the dollar or further yen weakness could bring in cheap imports.

TECH LAG Europe is far behind the U.S. in technology, and spending on millennium/euro conversions will wind down in 2001.

DATA: BUSINESS WEEK, GOLDMAN, SACHS & CO., HSBC SECURITIES INC.



THE GLOBAL ECONOMY

ARE COMMODITIES SIGNALING A WIDER SLOWDOWN?

The potential for a slump that affects the West is growing

The Asian crisis may not have done much to corporate earnings or stock markets in the West—yet. But it's certainly showing up in the trading pits of Chicago, London, and New York. These barometers of global financial anxiety are sending ominous signals. Wildly gesticulating commodity traders are bidding down prices of everything from crude oil to copper to corn. All but 5 of the 22 commodities in the Goldman Sachs Commodity Index (GSCI) have fallen this year. And the index is down 30% since Asia's woes surfaced in October. "This is a classic bust accompanied by tremendous financial instabilities," says Allen L. Sinai, chief global economist at Primark Decision Economics.

No, it's not the Depression, when plunging commodity prices led to broad global deflation. But the potential for a downturn that affects major industrial economies is growing as Asian countries with devalued currencies try to export their way back to health. The danger rises as other regions catch Asia's flu—transmitted in part through tumbling commodity prices.

Countries dependent on commodity exports are feeling the pain. Russia and the former Soviet republics are the latest casualties. With West Texas crude oil trading at \$15 a barrel, down from \$26 in January, 1997, they have recently cut back on some of the 7.2 million barrels of oil they export daily. Venezuela, where oil revenues account for a large share of tax receipts, was forced to cut its 1998 budget by \$2 billion—a situation mirrored in such other places as Mexico. It's a measure of how serious the problem is that Venezuela, OPEC's loosest cannon, is actually honoring the reductions the cartel agreed to last month.

In Chile, the culprit is copper, which accounts for 40% of export earnings.

BUDGET CUTS
In Mexico (left) and Venezuela, falling oil prices have slashed tax revenues

With copper prices down 31% in the past 12 months, at least two mines have been closed and several projects have been delayed. The government expects a current-account deficit of \$2 billion this year—an alarming 6% of gross domestic product.

Other Latin American countries, such as Brazil and Argentina, are suffering from weakness in grain prices. Not only has Asian demand for meat and fish grains slipped, but grain supplies have also expanded, thanks to unusually good weather brought by El Niño. Net effect: Wheat prices are off 17%, corn 14%, and soybeans 7% so far this year. That will hit American farmers in their pocketbook in 1998.

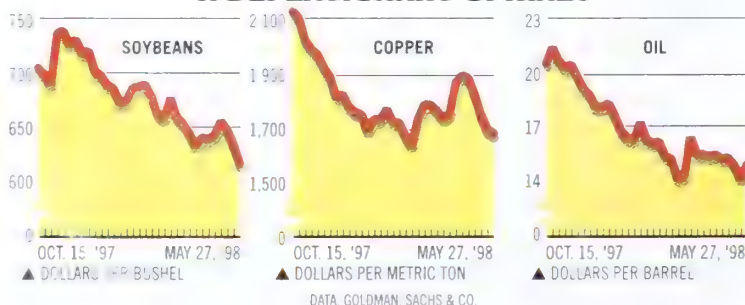
MORE TO COME. The news isn't all bad. Indeed, the drop in commodities prices will help most of the Asian countries that are big materials importers. The "that don't have much in the way of raw materials will benefit," says Leonard Lachman, head of emerging-market research at Salomon Smith Barney. But for some, the benefits are spoiled by currency devaluation. In Korea, where the won is down more than 35% against the dollar since last fall, commodities are costlier now than in 1997.

Worse, as precipitous as the declines in commodity prices have been, "they haven't finished falling," says economist Sinai. Asian countries, desperate for dollars, are selling what they can in a weak market. Indonesia is selling rice, oil and cocoa. Korea has unloaded gold. And rumors that China is dumping silver have helped send prices down in the past two months.

What's the long-term impact of further drops in commodity prices? Overall, it's negative. The lower costs will stimulate the economies of big importers such as Korea and Japan enough to offset the hits to exporters. Russia, Indonesia, Africa, and Latin America are struggling to find it harder to finance current-account deficits as their export income drops. They're forced to rein in, slowing global growth as commodities demand still further. Sadly, it's a tough cycle to break.

By Andrew O. Land in Chicago, and Geri Smith in Mexico City and bureau reports

A DEFLATIONARY SPIRAL?



TRAIL BLAZER



Katrina Garnett
Founder, President and CEO
CrossWorlds Software

Age

Younger than Bill Gates,
older than Michael Dell

Birthplace

Australia's Gold Coast

Background

10 years on the firing line
at Oracle and Sybase.

Recent Thrill

Flying 360-degree
inverted loops
in a SF260 Marchetti.

Favorite Charity

Started Garnett Foundation
to encourage girls to
pursue technical careers

Mission

Build software applications
that unite the operations
of global enterprises

Product

CrossWorlds United
Application Architecture
(UAA)

CrossWorlds'

Patents Pending

5 (so far)

Key Customers

Siemens, US West,
Primestar, Farmland,
Bay Networks

Corporate Investors

Raised \$45M from
Intel, Compaq,
SAP, Manugistics,
JD Edwards,
Ernst & Young

Bigtime Backers

Dave Duffield,
Michael Dell,
Andy Ludwick

Next Target

Enterprise software
connecting global
corporations
with their suppliers,
customers,
and partners.

Professional Credo

Aim high — then deliver.

Photograph by Richard Avedon

www.crossworlds.com

COMMENTARY

By Andy Reinhardt

DEAR INTEL: DON'T FOLLOW MICROSOFT'S LEAD

The Federal Trade Commission is mulling whether to charge Intel with anticompetitive practices. According to people familiar with the case, the FTC is focusing most intensely on how the top chipmaker divulges vital technical data to PC makers. Intel shares its "intellectual property" with most of them, but the feds are set to allege that Intel has withheld information from some customers as punishment when the companies are at odds—say in a patent dispute. That, the feds will likely assert in a case they could launch during the week of June 8, is an abuse of Intel's monopoly power.

Intel is signaling it won't budge on protecting its right to control its intellectual property. Sources say it considers technical data, such as the scheme for linking Pentium II chips to other parts of the PC, so vital to its business that it can't submit them to government control. That's precisely the position that its "Wintel" partner, Microsoft,

takes regarding efforts by the Justice Dept. to dictate what features can be bundled with Windows.

STRONG CASE. But there's a key difference between the cases. If courts find that the feds can legally limit how Windows is enhanced with new features, Microsoft must alter its fundamental strategy and perhaps make massive changes to Windows. A finding that Intel uses access to information as a weapon against customers would have no such impact. Agreeing to treat all customers equally, even if they're in disputes with Intel, won't cost the chipmaker a penny.

But if Intel takes its case to court and loses, the cost might be enormous. The result could be a court order demanding royalty-free patent licensing, or even stripping Intel of

some patents, antitrust lawyers warn. So the company is better off settling now on terms it can influence. A settlement could allow Intel to retain control of its technology by agreeing to more even-handed licensing terms.

By all accounts, the FTC has a strong case. Furthermore, the facts aren't in dispute: Intel provided agency investigators ample ammunition when it retaliated against customers Digital Equipment Corp. and Intergraph Corp. in patent disputes last year. Intergraph has already convinced a federal judge that Intel's demand for the return of confidential

invests so heavily in. But it can't say that's what it was doing in the Digital and Intergraph cases. Both already had received advance technical information as part of long, trusting relationships with the chipmaker. Intel demanded the documents back to punish them for filing patent claims against it. To the trustbusters, that move looked like a monopoly flexing its muscles.

Intel talks about leading a PC business built on open standards. But it's a fiction that the PC industry is open. Intel and Microsoft together control much of the intellectual property used in PCs and most of the "inter-

WHERE THE FEDS ARE LOOKING AT INTEL

INTELLECTUAL PROPERTY The Federal Trade Commission has been gathering evidence that the chipmaker withholds critical information to punish customers with which it has disputes

ALLOCATION Computer makers have told the FTC of cases where they think Intel has slowed vital shipments to punish them

OTHER PRACTICES The agency is gathering information on other anticompetitive practices that the chipmaker allegedly uses

documents was unlawful restraint of trade and an abuse of Intel's monopoly position in microprocessors.

Traditionally, Intel has shared intellectual property with PC makers—for instance, giving them details about its PCI "bus" and MMX graphics commands to help them use Pentium chips, for instance. Lately, though, Intel has licensed key Pentium II technology only to one unidentified chipmaker. And it hasn't given away rights to the next generation of MMX, which will be built into a chip code-named Katmai this year. That shuts out rivals and makes PC makers more dependent on Intel.

Of course, Intel has the right to profit from its own inventions and to protect the intellectual property it

GOOD DEAL

Agreeing to treat all customers alike won't cost Intel a penny

faces" that make the machines' parts mesh. And while Intel does indeed license technology, it often does so in ways that give it maximum leverage—by blessing particular partners or by delaying the license for as long as two

years. That can make competition a but impossible.

If Intel wants to foster a dynamic PC business—and steer clear of the feds—it can do a lot by licensing new technology in a reasonable time frame and on reasonable terms. And Intel should bend over backward to avoid threatening customers. Intel can start right now by settling with the FTC.

Reinhardt follows Intel from San Mateo, Calif.



Her firm is helping design
the cities of tomorrow.

We're helping her plan
her financial future today.



Designing tomorrow's world takes vision, careful planning, and the right execution. Designing a financial future requires no less. That's why the products and services of American General make so much sense. As one of the nation's largest providers of retirement services, life insurance, and consumer loans, we're uniquely qualified to help build our customers' financial success. We offer personalized

service and knowledgeable financial counseling to 12 million people at every stage of their lives. American General. Helping our customers design - and achieve - a successful financial future.

**AMERICAN
GENERAL**

Retirement Services • Life Insurance • Consumer Finance

Helping 12 million Americans do better financially.

American General Life • American General Life and Accident • Franklin Life • United States Life
All American Life • Old Line Life • USLIFE Credit Life • American General Life of New York
American General Finance • VALIC • American General Annuity • American General Securities Incorporated

Visit www.agc.com or call 1 (800) AGC - 1111



TRUSTBUSTERS

WHERE MICROSOFT REALLY WANTS TO GO—TOMORROW

It went to the mat on Win98 to clear a path for Windows NT

The first legal maneuvers in the Justice Dept.'s May 18 antitrust suit against Microsoft Corp. have just begun. But already, government investigators are looking ahead to what might be a much more crucial fight—over Windows NT, the Microsoft operating system now used to run corporate networks and destined to become Microsoft's core technology in the next few years. Windows 98 is a battle, but NT will be the war.

Even before the lawsuit was filed, several Microsoft competitors had taken their gripes concerning Windows NT to the Justice Dept. They say Microsoft is using the power of its Windows desktop monopoly—plus tactics it used to gain its grip on the market—to help boost sales of Windows NT. This includes, they say, practices that pressure software developers now using Windows to adopt NT for more advanced systems rather than using competing products. "There's much more jeopardy for the industry with NT than with Windows 98 and the browser," says John McFarlane, president of Sun Microsystems Inc.'s Solaris software division.

While Windows NT is not mentioned in

the antitrust suit, a judge could rule that it, too, is covered if Justice succeeds in its effort to bar allegedly anticompetitive Microsoft practices. A consent decree could set precedents that apply to NT, says Stephen D. Houck, assistant attorney for New York State. "It will be clear even to Microsoft that it can't engage in these kinds of practices." Beyond that, Justice officials are gathering evidence for a case that might target Windows NT explicitly. So, it's no wonder that Microsoft is determined to nip the first case in the bud. "We want to win this for Windows 98, and to defend the principle of innovation for our other products—including Windows NT," says Brad Chase, vice-president for Windows marketing.

Especially NT—is more like it. The company is using Windows NT as a battering ram to penetrate the \$30 billion-plus corporate software market. And so far, it's working. For the fiscal year beginning in July, revenues for Windows NT and related applications are expected to reach \$3.9 billion, or 23% of total revenues, according to NationsBank Montgomery Securities Inc.

Microsoft doesn't have a monopoly with Windows NT, but it's gaining mar-

ket share at a gallop. Last year, in a 39.8% share of server units sold, from 24.5% the previous year, according to International Data Corp. Critics argue that both operating systems should be counted together. "They've announced that Windows 98 and Windows NT will ultimately be one operating system, so it's just one big monopoly," says an executive at a competing software company.

Microsoft denies that it has a monopoly—or has done anything illegal in its network operating system business. At the same time, it's not backing off as it bundles a browser with Windows 95—the move that set off Justice's inquiry—Microsoft also includes a Web server with Windows NT. Now plans to bundle an Internet-based directory. "We won't be distracted by speculative legal action," says Jeff S. Raikes, group vice-president for Microsoft. **LIFE-THREATENING.** Raikes points out that customers benefit from new features in Windows NT and its applications. The pricing is certainly competitive. For example, Microsoft's SQL server, which sells for about \$900 for a basic setup, gets thrown into the application suite with Windows NT at no charge. Competitors say this amounts to predatory pricing and will make customers dependent on Microsoft.

Indeed, for small software companies, it can be life-threatening when Microsoft bundles a new feature. Arbor Software Corp., for instance, agreed to merge with a larger company after Microsoft announced it would give away its data-analysis tool that Arbor sells.



good call.

1 A Sony spread-spectrum cordless phone transmits clearly. Securely. With up to three times the range of regular 900 MHz cordless handsets. 2 ABC And its appeal goes much farther than that. 3 DEF Sony called on Rockwell semiconductor technology to create the most feature-rich and user-friendly digital cordless products on the market. 4 GHI We're giving countless other customers plenty to talk about too. 5 JKL Whether it's the automation system that helps a motorcycle manufacturer turn raw metal into rolling thunder. 6 MNO The call center technology that lets an overnight express service respond to more than half a million customers a day. 7 PQ RS Or the avionics display that paints a picture of distant weather for an airliner navigating through the night. 8 TUV Good calls for companies seeking smart answers. 9 WX YZ Because whatever your business, the bottom line is this. TALK You succeed. We succeed.SM

Rockwell

Electronic Controls and Communications
www.rockwell.com

\$60,000 per server. "You can't compete with free," says Arbor vice-president Kirk Cruikshank.

Larger competitors aren't immune, either. In January, when Novell Inc. began selling a directory to go on top of Windows NT Server, Microsoft announced that any customer who bought it would no longer receive Windows NT support from Microsoft, according to Novell. Microsoft backed off, admitting a mistake. But according to Novell, the damage was done.

RALLYING CRY. In an effort to stop this kind of practice, the Software Publishers Assn. has prepared a 50-page report on Microsoft's Windows NT tac-

tics. The chief concerns: bundling and pricing. The report also charges that Microsoft uses Windows to promote NT by requiring software developers who want their products to be certified as Windows-compatible to make sure they run on NT, too.

While the debate goes on and the lawyers are revving their engines, Microsoft is still a long way from dominance in the corporate computing realm. Its software rivals are praying that the government can somehow keep it that way.

By Steve Hamm, with Robert D. Hof, in San Mateo, Calif., and with Susan B. Garland in Washington

JUST HOW MUCH DOES WINDOWS 98 COST?

As if its legal problems with the Justice Dept. aren't complicated enough, try figuring out Microsoft Corp.'s pricing strategy on its new Windows 98 operating software, expected out on June 25. Four personal-computer makers, with worldwide market share of 16%, say Microsoft has raised the base

price for the controversial program, while three PC rivals, representing 9.4% of sales, say they'll pay exactly the same as they do for Windows 95.

Who cares? Regulators certainly might. After all, Microsoft consistently portrays itself as a pro-consumer company that has consistently offered powerful new technology at the same or lower prices—not a predatory monopoly. And PC makers that were hit with the hike—two claim an increase of roughly \$7 from Windows 95, to around \$60 per copy—are fuming. They point out that unlike Windows 95, Windows 98 lacks the hot new features to set off a big buying binge. And with profits tumbling because of plunging PC prices in the last year, they had hoped Microsoft would start sharing the pain—and help PC makers lower prices to spur demand. "Do



HARD CHARGER

Gates & Co. deny it, but four PC makers say that Microsoft is hiking the base price of Windows 98

appears on their products and a few bucks for including the Win98-compatible TV tuner cards Microsoft is pushing in new models, say PC makers.

As for Microsoft, it insists it has not raised prices. On the eve of the Justice Dept.'s antitrust suit, Microsoft CEO William H. Gates III told BUSINESS WEEK: "Windows 98 is a product that we priced exactly the same as Windows 95." And while the retail price will be the same, Microsoft doesn't publish a price list for PC makers, so it's hard to detect changes. For this reason, it's doubtful any PC maker will go public with gripes. Says one: "No one wants to testify in front of a Senate panel for fear that Microsoft would turn around and raise your price."

they want to make more PC customers, or just take more profits out of everyone else's pockets?" asks one PC exec.

Overall, are prices really rising? Microsoft offers various volume discounts and rebates of \$20 or more per machine to PC makers that help it hit its goals. For example, PC makers get \$1 to \$3 for every Windows sticker or logo that

appears on their products and a few bucks for including the Win98-compatible TV tuner cards Microsoft is pushing in new models, say PC makers.

By Peter Burrows in San Mateo, Calif.

ENTERTAINMENT

AND THEN THERE WAS ONE

Bob Iger's star rises as other Disney execs jump ship

Executives at Walt Disney Co. were scurrying around handling minute details for the June 5 premiere of the animated film *Mulan* at Hollywood Bowl. But back at Disney Burbank (Calif.) headquarters, new the latest executive defections had sid-ers wondering whether they must start preparing for another show: coronation of Robert A. Iger, head of Disney's ABC unit and a fast friend of Disney Chairman Michael D. Eisner. Iger's stock—already rising—gets an extra boost as other top execs depart.

PACKING UP. The latest is Steve Burke, 12-year Disney exec who became an lieutenant after launching the Disney Stores and helping to turn around Disneyland. Burke left on June 2 to launch Comcast Corp.'s cable operation, joining a list of other potential Eisner successors who have departed—including Chief Financial Officers Richard D. Nanula and Stephen F. Bollenbach. In recent weeks strategic planner Lawrence P. Murry passed over for CFO Nanula's job, and cable programming chief Geraldine Laybourne also have left. Laybourne is starting her own company with Disney backing. "This is a mess of negatives," says Merrill Lynch & Co. analyst Jessica Cohen. "They have to be grappling with why everyone is heading out the door."

The Disney view: The company has become a charm school for executives who are hotly sought elsewhere. "It's just like GE," says Bollenbach, who led 1997 to run Hilton Hotels Corp. "When you're looking for someone, one of our first calls has to be to Disney." And at General Electric Co., the CEO shows the willingness to share power.

But despite Disney's generally good results, Eisner may be concerned about the exodus. Before letting Burke leave, insiders say, he offered to put him in charge of the ailing ABC network, reporting to Iger who's in charge of ABC and cable network ESPN. Neither Eisner nor Iger would comment. Fixing ABC—where ratings slid 9% this season—could be a tough test for his apparent Iger. But he again, as one insider suggested, experienced execs can come back.

By Ronald Grover in Los Angeles

By Roger Crockett

'ONLY SPRINT HAS IT ALL'—OR DOES IT?

Don June 2, against a backdrop of multimedia glitz, Sprint Corp. unleashed what it called a "revolutionary" new network. For the technology-hungry American consumer, it's a kind of fiber-optic dream come true. Mom can make a long-distance call, Dad can hold a video conference, both can send and receive faxes, and the children can surf the Internet at lickety-split speeds—all from a single telephone line. "Others may have bits and pieces of a high-speed communications system," beamed William T. Esrey, Sprint's CEO. "But only Sprint has it all. Only Sprint has it now."

If only that were true. The vision is real and, indeed, alluring. Using digital technology, telecom providers will certainly flood American homes with whizzy gizmos and lowest-cost services—from video on demand to ever cheaper long-distance calling. And the Baby Bells, AT&T, and Qwest Communications International are already busily rejiggering the nation's 100-year-old telephone network or seamlessly side-stepping it to offer high-speed digital connections to hundreds of business customers. Says Frank Ianna, AT&T's executive vice president in charge of networks: "Frankly, there's not a lot of new here."

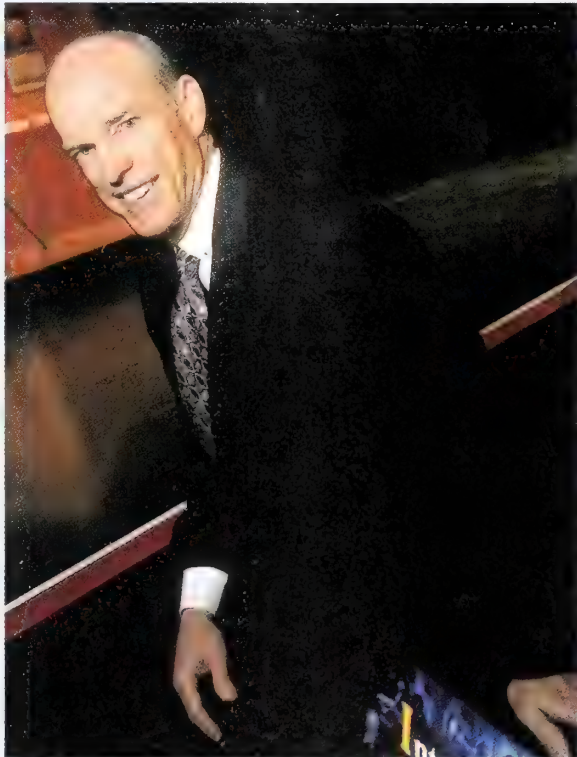
HART TECH. Worse, what Sprint promises for consumers is illusory, given the technical, financial, and regulatory issues that must now overcome to make "Integrated On-Demand Network" available to residential customers. Sprint, like

long-distance rivals AT&T, MCI, WorldCom, Qwest, and virtually every competitive carrier, has created an oppressive web of fiber-optic cables and switches that chop up traffic into digital bits and zap them along. And Sprint's network is as smart as they are—using so-called ATM technology that can handle all sorts of digital traffic.

The problem is that no matter how cutting-edge the technology, Sprint still can't easily deliver on the

promise of "virtually unlimited" bandwidth to the home that can be turned on and off as simply as the kitchen faucet.

This sort of unlimited bandwidth is available—to corporations, government agencies, and other large telecom users. And, like other long-distance carriers before it, Sprint will first look for the payoff on its \$2 bil-



Limitless bandwidth that can be turned on and off like a faucet? The hurdles are huge

CEO ESREY: TOO OPTIMISTIC?

lion digital-infrastructure investment from the lucrative business market. It says it will have direct links between its network and businesses in 36 urban markets by yearend.

That's doable. But Sprint's plan to offer similar connections to homes in late 1999 may not be. To use Sprint's service, households will need the latest in high-speed devices such as cable modems or Digital Subscriber Lines (DSL) links. Those connections are the province of cable companies

and regional phone companies that own the "last mile," the lines running from local phone or cable company offices to homes.

It's unclear whether current regulatory agreements require the Bells to sell such service. And Sprint is busy trying to make deals. But some Bells, upset they can't yet enter long distance while Sprint can invade

their territory, may not cooperate. "I think we'd argue that we don't have to resell DSL lines," says a Bell Atlantic spokesman.

HOME HURDLE? Sprint could still go partners with a regional competitor that reaches residential markets, yet few have national reach. To meet its goal of making the new network profitable by 2001, Sprint might have to build its own lines to homes, a huge financial hurdle that has scared off AT&T and MCI.

And even Sprint chief Esrey admits that once all the links are in place, his company still has to execute. To deliver the big cost savings he's promising on voice traffic—up to 70%, he says—the company must implement a new billing system to count usage by the bits of information transmitted, rather than by the minute. And it has to retrain its customer-service staff to deal with a new range of digital services. "There's more to establishing a service than putting technology onto a fiber-optic link," says Qwest's Lewis O. Wilks, president of business markets.

Further, Sprint will have to convince consumers to buy

equipment that costs \$200 and monthly fees that would hover in the \$125-a-month range for the fastest service. If Sprint can't clear that hurdle, its "revolutionary" breakthrough could become the latest broken promise to consumers who keep waiting for their turn to jump on the vaunted Information Superhighway.

Crockett covers technology and telecommunications from Chicago.

**In-country specialists
across Asia.**

**Global capital markets
expertise.**

Research and risk management

agility.

Managing Risk in Asia

The Asian economic region is complex. It takes both market intelligence and agility to identify and measure financial risk. At BankAmerica, we deliver on both.

We offer world-class research and analytics through in-market analysts and capital markets specialists, enabling us to understand market fluctuations. To capitalize on opportunities, our experts structure customized portfolios, from local currency instruments to floating, fixed-rate, and convertible bonds. Plus, we effectively originate and distribute capital raising solutions through relationships with over 80 percent of the world's largest companies.

For over 50 years, we've applied local knowledge and expertise to help clients anticipate and meet Asian market challenges.

That's power in motion. That's BankAmerica in motion.

Hong Kong

852-2847-6180-6

852-2847-6867

852-2847-6710

Singapore

65-239-3249

65-239-3280

Tokyo

81-3-3587-3442

81-3-3587-3408



1998 BankAmerica Corporation



BankAmerica

www.bankamerica.com

power.
in motion.

EDITED BY PAT WECHSLER

AUTO DERBY S NEVER HOTTER

M, VROOM. CARS ZOOMED out of the showrooms in May, led by a seemingly never-ending spree of incentives, car and truck sales jumped 12% from a year earlier to 1.51 million. The seasonally adjusted annual light-vehicle sales rate hit 16.3 million—the highest since 1991. The buying bonanza ended some remarkable records for individual auto makers. Recording its first-ever 100-vehicle sales month, Chrysler reported sales up 10%—albeit measured against May a year ago. General Motors was up 12%, Toyota 7%, and Honda 18%. All lagged with a 1% increase but set a record for

truck sales, as did GM and Chrysler. Big Three shares have zoomed—in Ford's case, by as much as 71% since January. But, warns David Healy of Burnham Securities, "that sales rate is not sustainable. We're borrowing from the second half of the year."

MARRAM HEADS FOR THE TOP AT TROP

AFTER YEARS OF BUMPING UP against the glass ceiling, Ellen Marram may finally become CEO of her own company. Barring a surprise acquisition offer, Seagram expects to spin off its \$2.1 billion-a-year Tropicana group in an initial public offering in the summer. And company officials now confirm that Marram, who rose to chief executive of the juice unit last July, would keep the CEO's post. Marram, 51, became Trop's president in 1993.

AT&T MANAGERS RUSH OUT THE DOOR

AT&T CEO MIKE ARMSTRONG IS getting what he wanted—but perhaps more quickly than he would have liked. The long-distance giant plans a pretax charge of more than \$1.2 billion in the second quarter because more managers are taking an early retirement package than originally anticipated. Armstrong said in January that he wanted to cut up to 11,000 managers by the end of 1999, but 14,000 managers are now expected to take the voluntary package. The cuts are part of Armstrong's effort to reduce overhead to 22% of sales from 29% by the end of 1999.

WHEN THE WEB GETS TOO NOSY

FORGET PORN—PROTECT THE kids from commercial exploitation. In a long-awaited

HEADLINER: JOHN STAFFORD

COMBINE INGREDIENTS. STIR VIGOROUSLY

After successfully battling cancer, 60-year-old John Stafford, chairman and CEO of American Home Products, says he's ready for any challenge.

And at no time has his scrappiness been more necessary. On June 1, in the biggest drug merger ever—a \$35 billion stock swap—he announced the union of \$14.2 billion AHP and \$7.5 billion Monsanto.

The two companies could make a formidable team: combining Monsanto's leadership in the hot new life-sciences industry and its drug unit's lineup of promising new drugs with AHP's big drug business and glob-

al sales force. Stafford, who has headed AHP since 1986, has built a reputation as a tough cost-cutter. Still,



AHP has not been a huge hit on Wall Street—its stock has trailed its peers for five years. In merging with Monsanto, which has been spending big on biotech research and acquisitions of its own, Stafford will have to adapt to the long-term outlook and spending requirements of life sciences. Harder, he'll have to learn to share power with Monsanto CEO Robert Shapiro, a deal-breaker provision.

*By Richard A. Melcher
in Chicago*

LOSING BELL

OUT OF STEAM

There is no way to run a railroad. That's what the market Union Pacific on June 2 shares in North America's largest railroad sank to 44%, its lowest since 1994. UP, which botched its Southern Railway merger, said its CFO was leaving. Earlier, UP said it posted a third consecutive quarterly loss. Says Michael Rosen, manager of the Invesco Convertible Securities Fund: "I don't know who will give management a high ranking on performance or credibility."



17, '98
ARS
BLOOMBERG FINANCIAL MARKETS

report to Congress on the state of online privacy, the Federal Trade Commission recommended on June 4 that lawmakers write legislation to give parents greater control over their children's privacy on the Web. Specifically, the agency suggests requiring Web sites to notify parents if they wish to collect personal information for marketing purposes and to require parental consent. In its survey of over 1,400 Web sites, the FTC found that 85% of the sites collect personal information from users. But only 14% provide notice about their data-gathering practices.

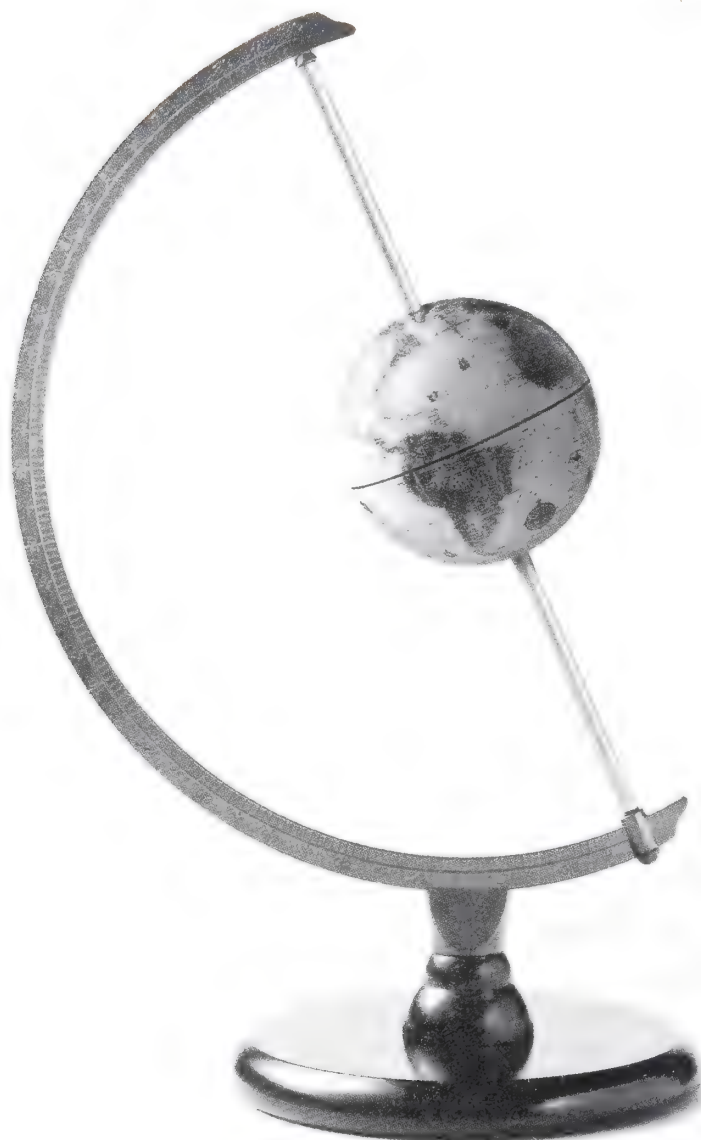
MERRILL WRITES A BIG CHECK

MERRILL LYNCH AGREED TO pay \$417 million on June 2 to settle charges over its role in the 1994 bankruptcy of California's affluent Orange

County. The financial disaster, which was prompted by a highly leveraged wrong-way bet on interest rates, stands as the largest municipal bankruptcy in U.S. history. The investment bank, which denied wrongdoing, claims it was in its best interest to avoid the uncertainty inherent in going to trial. With this settlement, considered a coup for Orange County, the tally of the county's legal wins is now almost 40% of its original \$1.6 billion loss.

ET CETERA...

- Time Warner cut its planned bond sale by 40% because of investor jitters.
- Arco plans to raise \$2.15 billion by reducing its stake in Arco Chemical.
- 3Com wants to hire an operational exec, easing CEO Eric Benhamou's burden.
- Tellabs and Ciena merged on June 3, in a \$7.1 billion stock deal.



**HAS THE WORLD GOTTEN SMALLER,
OR IS IT THAT WE'VE JUST GOTTEN BIGGER?**

The St Paul

EDITED BY OWEN ULLMANN

BAZOOKA AIMED AT BIG LABOR BACKFIRES ON THE GOP

Republicans may rue the day they made war on labor. The June 2 defeat of California Proposition 226—which would have clamped down on union political spending—reverses similar drives in other states. It's a big blow to the identical aspirations of retiring California Governor Pete Wilson, who stumped for Prop 226. And labor's come-from-behind victory spells trouble for Republicans. Crippling one of the GOP's biggest-spending foes was a key component of plans to retain control of the House this fall. A few months ago, Prop 226 looked like a winner. Polls showed overwhelming support for its requirement that unions get annual written permission from each member before spending on political activities. And it had the backing of House Speaker Newt Gingrich (R-Ga.), who has been struggling to pass similar legislation in Congress. Gingrich's objective was to punish labor for a \$35 million anti-GOP campaign in 1996 that nearly handed the House back to the Democrats. But the GOP launched a furious \$20 million counterattack.

NO MORE ANGER. Now, the defeat of the initiative will intensify the angst of Republican leaders. They have moved to the defense of late to firm up their conservative base and worry that they can't find issues that will resonate with mainstream voters in November.

At the same time, the defeat of Prop 226 has come as a needed pick-me-up for a labor movement demoralized by the Teamsters corruption scandal. Now, labor hopes to tap the anger of thousands of rank-and-file activists to kill 226 clones in about 30 states and capture the 11 House seats needed to throw Gingrich & Co. out of power. "We have new strength and momentum heading into the fall elections," crows AFL-CIO President John J. Sweeney.

As the fighting intensifies, business is getting caught in the

crossfire. Corporate executives in California, fearful of provoking a counterattack by labor, adopted a neutral stance on Prop 226. That didn't stop labor from blanketing the airwaves with ads that cast the fight as a power grab by greedy corporations. The upshot is that Corporate America will be even more wary about backing the other state measures. "Business should really be worried," says U.S. Chamber of Commerce Executive Vice-President R. Bruce Josten.



THEY JUST SAID NO to Prop 226

Josten's fear: The California win shows how much political strength labor can still muster. While national unions kicked in about \$5 million, most of the funds came from California locals, which recruited 24,000 volunteers to set up phone banks, walk precincts, and stage rallies. Unions also campaigned intensively among their own members. For example, the United Food & Commercial Workers sent 75,000 California members a 10-minute anti-Prop 226 video.

Gingrich confidant Grover Norquist, the conservative activist behind the national drive to curb union political power, is already rewriting his game plan. Conceding that labor may have the clout to kill ballot measures, Norquist says he'll ramp up the battle in several state legislatures that are debating bills similar to Prop 226. Adds Dan Burdick, executive director of the Nevada Republican Party, which has a proposition on the state's November ballot: "We have to adjust our strategy."

The GOP finds some solace in the fact that labor's victory came at a steep price. The millions spent against Prop 226 won't be available for the fall elections. Still, unions dodged what could have been a devastating blow to their political effectiveness. And now they're more determined than ever to finish the job they began in '96.

By Aaron Bernstein and Amy Borrus, with Steven Brull in Los Angeles

CAPITAL WRAPUP

ARMED AND DANGEROUS: HARMAN, POOR POL

► Demo to multimillionaires looking to prop up their careers with a high election office: Don't quit your day job.

June 2 California primary losses of super-rich candidates Al Checchi, Dan Harman, and Darrell Issa offer ominous tales about trying to buy way into public office.

California's Democratic race for governor, former Northwest Airlines chairman Checchi spent more than \$10 million of his own money; Representative Harman, wife of a stereo

equipment magnate, tapped \$20 million of her fortune; and car-alarm tycoon Issa coughed up \$10 million in the GOP primary for the Senate.

But fat-cat ad blitzes aren't working. Just ask Michael Huffington, the Californian who blew \$30 million running for the Senate in 1994, or would-be Presidents Ross Perot and Steve Forbes. And '98 will be an especially tough year to get voters' attention. "This is not a year when you can capitalize on popular discontent

with your checkbook," says Carleton College political scientist Steven Schier.

The Checchis of the world would do well to study Wisconsin Democrat

Herb Kohl, one of the Senate's richest members. The mild-mannered moderate, heir to a supermarket fortune, had a strong public-service record before he ran for the Senate in 1988. And he made a shrewd political investment by buying the Milwaukee Bucks in 1985 to keep them from leaving town.

By Amy Borrus

AL: Why is this man laughing?





INDONESIA

CONTRACTS IN FLAMES?

Any deals with the Suhartos are at risk

Ronald P. Landry, CEO of Paiton Energy Co., waves a contract the size of a phone book in the air. It's the document Paiton executives signed to build a \$2.5 billion power plant in Indonesia in 1994. Now, with President Suharto ousted, the government of B.J. Habibie may be looking for ways to impose new terms on expensive deals such as the Paiton plant. Don't try it, warns Landry, pointing to

the page that requires all parties to submit to arbitration. "If the government reneges on this contract, they'll get absolute turmoil," he says. He even invokes the threat of phone calls from President Clinton and Prime Minister Ryutaro Hashimoto on behalf of the Paiton consortium, which includes General Electric Co. and Mitsui & Co.

It would take more than a few phone calls to defuse this situation. Habibie's

fragile government is under mounting pressure to exact retribution against the Suharto clan. According to the Indonesian Business Data Centre in Jakarta, which tracks Suharto family investments, the Suhartos and their progenies have equity stakes worth \$20 billion in major Indonesian companies. These companies have derived much of their value from links with multinationals, so the government will soon probe into deals designed with the former First Family's corporate entities to uncover any untoward doings. The new regime may see the probe as a way to renege on contracts—like the Paiton plant—where terms a prostrate Indonesia can no longer afford. The investigations could create the kind of political theater Habibie needs. Trouble is, the purge could spook the multinationals, with disastrous effects.

For now, foreign investors can only watch helplessly as the Indonesian Attorney General's Office looks into 7 billion worth of deals personally approved by Suharto from 1967 to 1998. Companies ranging from Siemens of Germany to Merrill Lynch & Co. of the U.S. and NEC Corp. of Japan south

GOLDEN ASHES:
*First riots, and
now a legal quag-
mire for investors*

out Suharto's family as partners because the law granted domestic investors large stakes in joint ventures, and the Suhartos had unbeatable connections for getting things done.

No one thought the Suhartos would fall victim to the very system they created. "The political pressure is just beginning. It will get bigger and bigger," predicts Sofjan Wanandi, CEO of Gemala Group, whose foreign partners include Nomura Securities Co. and Glaxo Wellcome PLC. Investigators will go after deals that were not awarded by formal tender or which gave the Suhartos free equity. Investors whose deals the gov-

nt singles out for annulment and otiation will simply be told "they ill out of Indonesia if they don't" says Christiano Wibisono, head Indonesian Business Data Centre.

RAISE. Lawyers for the multinational fear investigators will claim that re presence of Suharto children in als guaranteed that government ators would accept unfavorable for the state. Of course, foreign may find for the multinationals, claim the contracts are legal. But ous cases where foreign investors rbitration proceedings, the In- n courts simply ignored the find- In each case, the district court e haven't received the letter from ia's Supreme Court,' and it ended says one foreign lawyer.

e deals may be too important to antled. The Jakarta Water Au- decided on June 1 to give 's Suez Lyonnaise des Eaux and 's Thames Water International te control of a key water-purifi- plant. These companies got to t the equity stakes of Suharto's git Harjoyudanto and his busi- sociate Anthony Salim.

Other large infrastructure contracts could be in trouble, however. Take the Piton power plant, which is scheduled to go on line next year. In 1993, the government, anticipating a huge buildup in demand, agreed to pay Piton 8.5¢ per kilowatt hour for its energy. That was much higher than prevailing rates then—and it's absurdly high now, since the recession has wiped out manufacturing. So officials will probably soon demand that Piton lower its rates, which the government had agreed to pay in dollars.

The Piton deal is also vulnerable since Suharto daughter Siti Hedijati Hariyadi and her brother-in-law Hashim Djojohadikusumo own equity in the project. Also, the government did not put the power contract through a formal bidding system. Landry maintains that the deal would pass international scrutiny. But he admits that "we can't speculate on what will happen" in a politically motivated Indonesian probe.

TARGETED MINE. The mining companies may be targets too. Amien Rais, the fiery Islamic leader, has accused them of unfairly siphoning off Indonesia's gold and oil reserves. Thus a \$3.2 billion gold mine operated by Freeport McMoran Copper & Gold Inc. of New Orleans, the Indonesian government, and Suharto's Nusamba investment company of charitable trusts will be on the hit list, industry sources say. So will a joint venture involving Nusamba, the local Freeport unit, and Mitsubishi Materials Corp., which is building a \$650 million copper smelter under a generous five-year tax holiday. Freeport declined to comment. Mitsubishi says that it has no dealings with the Suhartos.

Suharto's children are not in a position to defend their old partners. On May 29, for example, Suharto's son Bambang Trihatmodjo resigned as president-director of Bimantara Citra, which has \$1.3 billion worth of joint ventures with Deutsche Telekom, Hughes Electronics, Hyatt, Hyundai Motor, and other foreign investors. "The political pressure is so great that we can't do business anymore," says new Chairman Rosano Barrak. That could force Bimantara to "close down," he says. The government is also leaning on the toll-road company controlled by daughter Siti Hardiyanti (Tutut).

In this environment, rumors of multinationals bolting should come

as no surprise. Industry sources say that Siemens might mothball its \$1.7 billion Jawa power plant before construction is completed; the project has ties to Bambang. Siemens says that the project is on. Brokers also say that Merrill Lynch will close shop, which Merrill denies.

A few Indonesians want the government to ease up. "We don't have time for this," says economist Mari Pangestu, executive director of the Centre for Strategic & International Studies in Jakarta. She says the Suharto clan should be "treated like everybody else." Then, deprived of government favors, their companies would quietly go bankrupt, their assets would be sold off, and their foreign partners would emerge unscathed. Habibie, meanwhile, could focus on feeding the people and securing international aid. Yet purges always proceed according to political rules, not economic ones. The question is whether Indonesia can afford such popular outrage, however justified.

By Michael Shari in Jakarta



TUTUT Her companies are under pressure

The Suharto Family's Links with Foreign Partners

Siti Hardiyanti
Rukmana (Tutut)

**LUCENT TECHNOLOGIES
MARUBENI**

Sigit Harjoyudanto
SUEZ LYONNAISE

**DES EAUX
DUPONT**

**MITSUI
BRITISH PETROLEUM**

Bambang
Trihatmodjo (Bambang)
**HUGHES ELECTRONICS
DEUTSCHE TELEKOM
ALCATEL ALSTHOM
NEC
SIEMENS
NESTLE
HYUNDAI MOTOR**

Siti Hedijati Hariyadi
(Titiek)

**EDISON MISSION
ENERGY
GENERAL ELECTRIC
MERRILL LYNCH**

Hutomo Mandala Putra
(Tommy)

**KIA MOTOR
NEC
SUMITOMO**

Former
President Suharto
**FREEPORT MCMORAN
COPPER & GOLD
MITSUBISHI MATERIALS
CORP.**

SOURCE: INDONESIAN BUSINESS
DATA CENTRE

TOYOTA'S OKUDA ON CATCHING UP WITH FORD

When Hiroshi Okuda took the wheel at Toyota Motor Corp. three years ago, he set extremely aggressive goals. By 2000, he wanted to increase production by 27%, to 6 million autos and trucks a year, and he hoped some day to pass Ford Motor Corp. to become No. 2 in the industry. Those goals are looking a lot tougher to reach now that auto sales are tanking both in Japan and in the rest of Asia. Still, Toyota earned a record \$3.3 billion last year, largely because of the weak yen, and it's sitting on an estimated cash pile of \$38 billion. In a meeting room at the Palace Hotel on May 27, Okuda, 65, discussed his plans with Tokyo correspondent Emily Thornton.

Q: Ford is roughly twice Toyota's size. Where do you plan to find enough growth to make Toyota the world's No. 2 carmaker?

A: We are not thinking of entering a joint venture with another carmaker to achieve this. We will build up our own group by making Hino Motor and Daihatsu Motor officially part of the Toyota group. We would like to hold more than a 50% stake in Hino and Daihatsu.

We can find growth in China or Eastern Europe. We only have a 3% share in Europe. We can increase that. By piling up those sales, we want to come up with numbers that will surpass Ford's, if possible.

Q: You have said that you would like for Toyota to produce 6 million vehicles by 2000 (vs. 4.9 million last year). Is that still your goal?

A: We think we might be able to achieve that near the year 2000. It might be 2003 or 2004. We will do this by increasing our sales in China or Russia, including Eastern Europe, and possibly the main part of Europe or South America.

We will also increase our share by introducing new technologies, like our hybrid [electric- and gasoline-

powered] car. The company that can identify what technologies are needed, introduce them quickly, and commercialize them will succeed. The company that cannot do that will be absorbed. I think that will be what the automotive industry will be like in the 21st century.

Q: Do you consider the new Daimler-



Chrysler to be a serious threat?

A: Not really. We compete in different segments of the auto market. Mercedes-Benz doesn't sell that many cars. It has merged with Chrysler, which makes mostly full-size vehicles in a segment of the market which Toyota does not compete in that much.

Q: How do you think you can best use your cash reserves?

A: Of course, we'll use some of that

money domestically for research and development. But most will go to foreign investment. We will build factories overseas. And after that, we will invest some money in telecommunications and housing businesses.

Q: Until now, Toyota has invested on its own abroad. Might that change?

A: I don't think so. I think Toyota will want to do this on its own. We don't really join with partners. It's difficult for us to join various cultures and customs.

Q: Do you still believe it is important for Toyota to have a 40% share of Japan's auto market?

A: If we do not have a 40% share, we will have an employment problem. We want to have 40%. I don't think it would be so difficult for Toyota to have a 40% share, if we truly used our strength and provided more dealer incentives. But since that might hurt the conditions of the entire market, we are not doing that.

Q: How do you plan to regain the market share you have lost to Honda?

A: I don't think we lost share to Honda. When Honda and other Japanese companies started to make one after another recreational vehicle, Toyota did not make any model changes. That's why they were able to take our share. But it was not Honda especially. From now on, there will be a large, confused battle in recreational vehicles. We will launch four or five recreational vehicles this year.

Q: Will Toyota's exports increase worldwide by 17% again this year?

A: In total, yes. But exports to the U.S. will not increase. There, we have enough production capacity. We don't need to export more.

OKUDA'S PLAN

"We can find growth in China or Eastern Europe. We only have a 3% share in Europe. We can increase that"

Libby Cherrington
Certified Financial Planner

How do you give them more than memories?

It should be a simple thing: leaving your assets to the people you care for the most. But without careful planning, good intentions may not be enough.

At American Express Financial Advisors, we can explain issues such as the need for a will and how to avoid unnecessary estate taxes. So you get the expertise and insight you need to make smarter decisions and take control of your future.

Call 1-800-GET-ADVICE
and own your world.

www.americanexpress.com/advisors

do more



**Financial
Advisors**

TRUSTBUSTERS

NO MONOPOLIES, PLEASE —WE'RE EUROPEAN

The EU's antitrust czar takes a hard-line approach to high tech

It was high courtroom drama. At stake was WorldCom Inc.'s proposed \$37 billion takeover of MCI and the new telecom giant's control over cyberspace. Vint Cerf, the Internet's spiritual father, testified. Scores of high-powered lawyers made theatrical presentations. "It was like Perry Mason," recalls one lawyer in attendance on May 23-24. "We were deciding the entire future regulatory framework for the Internet."

The historic hearing before a European Commission committee in Brussels resulted in MCI Communications Corp.'s announcement on May 28 that it intended to sell its Internet connection business to Britain's Cable & Wireless PLC for \$625 million. Just the day before, the Commission torpedoed the proposed merger of Germany's Bertelsmann and Kirch Group digital-television divisions. Both cases illustrate the latest crusade of European antitrust czar Karel van Miert. After staking his career on opening up Europe's telecom markets, he is now hell-bent on slowing consolidation to make sure that fast-evolving technologies don't wind up in the hands of just one or two players.

Expect a long, bloody battle that will do much to shape Europe's high-tech future—and by extension, the world's. The same cables and satellites that deliver digital-TV pictures are being readied to carry traditional telephone calls as well as Internet traffic. Van Miert wants to keep both old-style national European cham-

pions and new-style, Microsoft-type monopolies from throttling competition. And in March, he won the right to investigate deals involving companies with European sales as low as \$23 million, down from \$227 million previously.

But critics say his campaign could slow development of the Information Superhighway. Consider the blocked Bertelsmann-Kirch alliance. It would have given the two companies a monopoly in Germany's digital-TV business. It would also have reinforced their partner Deutsche Telekom's domination of German cable-TV networks. Yet without the deal, German consumers could

wait years before they get any digital-TV service at all. Bertelsmann, Kirch, and Deutsche Telekom all say that a single company can afford the billions of Deutschmarks needed to build the infrastructure.

Several big upcoming cases will test van Miert's balancing skills. He is scrutinizing British Sky Broadcasting's proposed digital-TV alliance with British Telecommunications PLC. A go-ahead is expected, because unlike Deutsche Telekom in Germany, British Telecom doesn't dominate its country's cable and has announced that it will sell cable franchises. In Spain, though, van Miert will block an attempt by Telefónica and France's Canal Plus to monopolize digital pay football broadcasts. And he soon could introduce new European legislation requiring telephone operators to spin off their cable-TV business into separate subsidiaries, preventing them from using phone profits to subsidize their cable investments.

Maintaining competition on the Internet presents an equally tricky challenge. Van Miert recently forced Microsoft Corp. to loosen 25 marketing contracts with European Internet service providers such as France Télécom. He wants to ensure that Netscape and other browser companies have a fair chance. Microsoft's Explorer software now tops 50% market share in most of Europe, above its 40% worldwide average.

TERRIBLE TWO. He also has taken a tough line on the WorldCom-MCI deal. He calculated that together, the two companies would control 45% to 65% of total Internet traffic. MCI's sell-off of its Internet business could be enough to get van Miert to approve the merger. In theory, it should bring the new company's Internet market share under 40%, the cutoff for legal redress.

But van Miert could still veto the deal. Other telecom operators would like to see WorldCom invest its more autonomous U.S. Internet business. And a hard-line approach is getting support from the U.S. "The Europeans and Americans see pretty much eye-to-eye on regulating the new technologies," says Izzet Sinan of Brussels law firm Morgan, Lewis & Bockius. If he's right, anybody who hopes to make a bundle merging telephones, TV, and the Internet had better look both ways.

By William Echikson in Brussels



VAN MIERT: Hell-bent on slowing consolidation

TINY GOLIATHS

The trustbusters have a long reach
Van Miert recently won the right to investigate companies with European sales as low as \$23 million



At the GTE WHOLESALE SERVICES DIVISION, our goal is to provide innovative communications solutions to businesses within the communications industry.

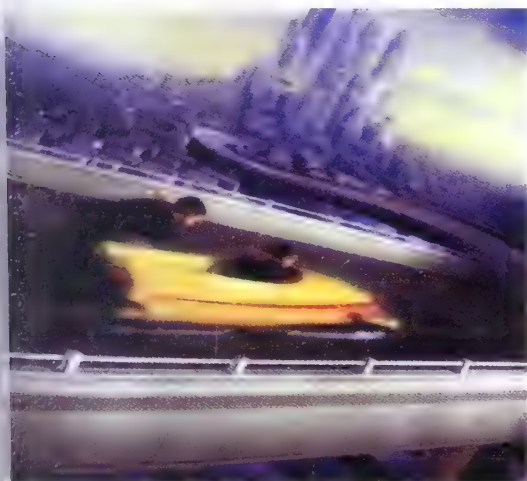
Whether it involves network management, network capacity, or resale services, we have an intimate understanding of the problems these companies face. And the experience and

expertise to solve them. We begin by establishing a relationship with customers based on open

communication and an understanding of their business, which allows us to focus squarely on their needs.

Then we look for creative ways to fill those needs – even if that means changing the way we do business.

“OUR INTERNET ACCESS SERVICE NEEDED MORE CAPACITY. AND WE NEEDED IT FAST.”



Some time ago, an ISP “backbone” provider faced a major dilemma: Customer demand for Internet capacity had outstripped their ability to provide it. They needed to build more and quickly. That’s when they called in GTE Network Services Wholesale

Division. Partnering closely with the ISP, we introduced them to a new networking configuration called CyberPOP. Instead of the traditional method of routing ISDN lines through multiple points, this system employs a trunkside connection that permits the equipment to be located in existing GTE switching centers, which in turn allows capacity to be added much more rapidly. Over the next two years, in fact, the rate at which we installed

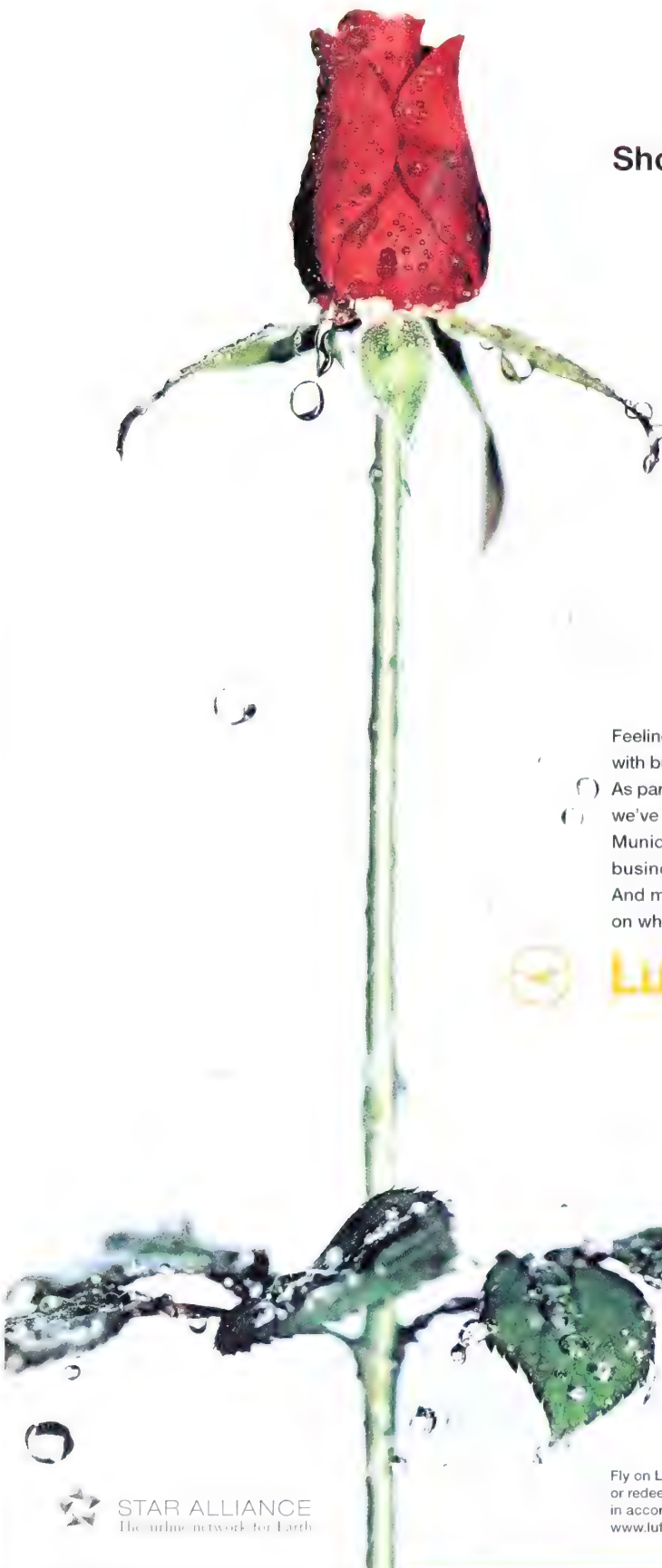
capacity for this provider went from 1,000 ports a month to more than twelve times that. This far exceeded their expectations, enabling them to increase their business and coverage opportunities very rapidly.

If you're having a problem getting one of your communications ideas to work, call the Wholesale Services Division of GTE at 1-888-483-9594, or contact us on the Internet at www.gte.com/Wmkt.s. We're quick. We're cost-competitive. And best of all, we're flexible. You can count on us to deliver solutions that will ensure your success.



PEOPLE
MOVING
IDEAS

NETWORK
SERVICES



Shower in our lounge.

Feeling refreshed. It's not a luxury you'd associate with business travel. But we've decided to change that.

As part of our new First and Business Class service, we've put showers in our airport lounges in Frankfurt, Munich, Dusseldorf and New York (JFK). So now, business travel is significantly more comfortable. And more comfortable travel is what people count on when they fly Lufthansa.



Lufthansa



STAR ALLIANCE
The airline network for Earth

Fly on Lufthansa or our global partner United Airlines and you can accrue or redeem miles in either Lufthansa Miles & More® or United Mileage Plus®, in accordance with the terms and conditions of the programs.
www.lufthansa-usa.com

EDITED BY JOHN TEMPLEMAN

MISSION IMPROBABLE: RECLAWING THE NEW NUCLEAR TIGERS

Can President Bill Clinton stop the spread of nuclear weapons? Bomb tests by India and Pakistan in May could set off a nuclear arms race in high-tension regions from Kashmir to the Middle East. Nearly 80 nations have urged Washington in condemning the tests. But so far, neither the U.S. nor the world's four other declared nuclear-weapon states—Russia, China, Britain, and France—have a viable plan to stop further proliferation. “People are out of ideas at this point,” frets Bruce G. Blair, an arms-control expert at Washington’s Brookings Institution.

The risk of a conflagration on the Indian subcontinent is worrisome enough. Pakistan and India have fought three wars since gaining independence in 1947. India, too, has a 1,500-mile frontier with China, which it has attacked at once. But links between Pakistan and the Muslim world raise an even scarier specter of nuclearization of the Middle East. Israel is believed to have nuclear weapons. Both Iran and Iraq have tried for years to develop them. Now, Pakistan’s tests put Iran closer.

Indeed, Iran’s Foreign Minister, Kamal Kharzai, was one of the first foreign visitors to Pakistan after the tests. Although Kharzai called for restraint and efforts to reduce tensions, his main message couldn’t have been clearer: “Muslims now feel Pakistan’s nuclear capability could play a role of deterrence to Israel’s nuclear capability.”

INDIA. Israel has campaigned hard to thwart any buildup of India’s military capabilities. It has, for instance, lobbied Washington to lean on Moscow to halt transfer of Russian missile technology and parts to Tehran. But Israeli officials say they may cook up a deal with Pakistan under which, in return for nuclear technology, it provides financial help to a fellow Muslim country hobbled by threatened U.S. sanctions.

Washington has few cards to play. After months of wrangling with Europe over unilateral sanctions against Iran and Cuba, the Clinton Administration isn’t even going to ask allies to block aid to India and Pakistan. It hasn’t much choice, anyway. European bankers are already knocking at doors in India with offers to replace any U.S. banks that pull out of deals because of sanctions.

Certainly, neither India nor Pakistan is running scared. On June 1, India announced a 14% rise in defense spending and a 61% rise, to \$340 million, in atomic research. Pakistan has offers of aid from its Muslim neighbors. Besides, severe sanctions would cripple U.S.-sponsored efforts to control exports of illegal drugs—a \$15 billion-a-year trade, a tenth of which passes through Pakistan.

For now, the U.S. is searching for carrots to spur good behavior. Some analysts suggest selling conventional weapons, including F-16 fighters, whose transfer to Pakistan is blocked by Congress. Others argue that the Big Five weapons states should now treat India and Pakistan as equals. To lower the risk of firing nukes, the Big Five could agree to remove guidance systems or warheads from their missiles if India and Pakistan do the same. Surprisingly, the Pentagon is studying a similar scheme for disarming nukes, says Brookings’ Blair. Such measures could also reduce the threat posed by Russia’s poor control of its arsenal.

But with emotions running so high, it’s far from clear that India and Pakistan would go along. Even if the U.S. can move other nuclear states to agree on what they want to achieve, getting there will require a lot more diplomatic deftness than any country has shown so far.

By Stan Crock in Washington, Shahid-ur-Rehman in Islamabad, and Manjeet Kripalani in Bombay



IN LAHORE: Anti-India protest

GLOBAL WRAPUP

GERMAN IPO

Completing its transformation from communist dinosaur, Jena-based Jenoptik is getting a Frankfurt Börse listing on June 16. The German high-tech company, which makes optical laser equipment, is selling 61% of shares in an initial public offering priced at about \$430 million—the highest ever by a company from the former East Germany. Chief Executive Lothar Späth, erstwhile prime minister of the western state of Baden-Württemberg, turned

Jenoptik round by buying healthy companies, many in the west. The makeover cost German taxpayers a whopping \$2 billion. The group now employs fewer than 7,000 workers, only 30% of them in Jena, versus 27,000 in its heyday.

COLOMBIA VOTES AGAIN

► Colombians will vote again on June 21 in a runoff for the presidency. Liberal Party candidate Horacio Serpa is pitted against Conservative Party hopeful Andrés Pastrana. Independent Noemí Sanín, a former Foreign

Minister who ran a campaign advocating a cleanup of Colombia’s notoriously corrupt political system, received 27% of the votes but came third and was eliminated.

The winner faces a sea of problems. Colombia needs to rebuild relations with the U.S., badly strained by allegations that outgoing President Ernesto Samper took campaign finance funds from drug barons. Besides, a new government must prune the \$3.6 billion budget deficit, about 4% of the economy, and resume peace negotiations with entrenched guerrillas.



**A small business network lets you share
printers and modems and information and ideas.
Soon you'll be referring to yourself as we.**

**When your people can access and share information, your
business is going to run more efficiently and more intelligently.**

**Microsoft® BackOffice® Small Business Server connects
everyone to everyone and everyone to everything from one
central, secure place. It lets you control sensitive data like
payroll and performance reviews. And it lets your employees
immediately access important information, like status
updates on orders and past purchases, so they can service
your customers better from the office or on the road. They
can even share files without sharing floppies so there are
fewer obstacles to getting more work done.**

**Tying your PCs together helps you make smarter, quicker
business decisions. And our Small Business Server has the
software you need to set up a network and easily manage it.
When growth demands you add office equipment like
computers, printers and modems to the server, Wizards pop
up on your computer screen and walk you through, step by
step, using simple, everyday words.**

**We'll send you our free 16-page small business guide with
CD-ROM when you call 1-800-60SOURCE. It's full of relevant,
pertinent advice to help you succeed.**

**We make software to meet your small business needs. And
it all starts with Windows. Everything fits seamlessly together
to form a digital nervous system so your business is ready,
willing and able to deal with what's around the corner.**

More teamwork. More growth. More control.

Where do you want to go today?

Microsoft®

www.microsoft.com

PRO FOOTBALL

A LEAGUE OF THEIR OWN?

Why NBC/Turner football just might score

Go ahead. Laugh. Hoot. Chortle. Have a good, long guffaw. A new pro football league? An upstart to challenge the pigskin supremacy of the glitzy, star-laden National Football League? What are the quarterbacks at NBC and Turner Sports smoking?

If sports history has taught us anything, it's that new pro leagues rarely last long. The good ones usually fall victim to soaring player payrolls, second-rate stadiums, lousy TV deals, and, in the end, crushing fan apathy. The bad ones don't get that far. The past 15 years alone have seen the United States Football League (USFL), the Major Indoor Soccer League, the south-of-the-border division of the Canadian Football League, and the Senior Professional Baseball League all head for that big stadium in the sky.

So when NBC and Turner announced in the middle of a Bulls-Pacers NBA playoff game last month that their plans for a football league would be revealed by fall, the temptation was to pronounce the venture dead on arrival. Such schemes have been in the air since the two were left out of the NFL's massive \$17.6 billion, eight-year TV deal in January. Still, with veterans Dick Ebersol, president of NBC Sports, and Harvey Schiller, president of Turner Sports, leading the effort, there is reason to take a time-out from the smirking.

What would another league have going for it? NBC and Turner aren't talking, but several observations can be made. The league would have a dandy TV deal. As the league's owners as well as its broadcast partners, NBC and Turner would have every reason to invest heavily. That would mean big-time announcers and glitzy production. And both could promote the league all over their airways. One reason that the USFL folded was that ABC lost interest and cut back on the hype.

HUNGRY? Another potentially promising feature would be the centralized ownership structure. From what is known, the networks would control all franchises, though some local investors might be permitted to buy in. That could lend the league stability. Instead of 10 or 12 owners bidding up salaries and driving clubs into the red—as happened with the USFL—players could be assigned to teams that need them most. Such a system would also help avoid the bane of pro sports: imbalance between big-market and small-market teams.

Where would the players come from? One plan favored by some football and marketing execs would be to hire hungry athletes willing to crunch bones for, say, \$60,000 a season to fill out 10 teams. That would leave room at the top of each roster for two or three pricey marquee players to draw fans. "It may be a great home for older vets," says agent Leigh Steinberg. "It also could be an opportunity for talented players who because of luck or circumstances didn't make NFL rosters."

Finding suitable stadiums in the fall would be tricky, however. Several major cities abandoned by the NFL have large facilities available—Los Angeles and Houston among them. But in some cities, the new

TURNER AND NBC: Deep pockets and free time

league might find itself playing in urban college stadiums. Plenty of stadiums would love to have tenants in the off-season, though, and that's another reason a spring league seems more doable. "If it's done right, I do believe there's an opportunity for a second league," says Chet Simmons, the first commissioner of the ill-fated USFL. His advice: Don't even think of a season in the fall. Play in the spring, when football nuts are just getting antsy.

Not everyone is so sanguine. Says Bill Etling, spokesman for sports metaproducer Anheuser-Busch Cos.: "At this point, it's too early to tell what they might do. We'll just wait and see." And former CBS Sports President Neal Pinn is even less upbeat: "I'd say there's no better than a 40% chance they'll do it." Wonder if he's counting a wild card named Ted Turner.

By Mark Hyman in Baltimore

HISTORY LESSON

	STARTED	OUTCOME
AMERICAN FOOTBALL LEAGUE	1961	Merged with the NFL after 1969 season
WORLD FOOTBALL LEAGUE	1974	Failed after two seasons
U.S. FOOTBALL LEAGUE	1983	Failed after three seasons
WORLD LEAGUE OF AMERICAN FOOTBALL	1991	Failed in U.S., still active as NFL in Europe
CANADIAN FOOTBALL LEAGUE'S U.S. DIV.	1995	Failed after two seasons

DATA: BUSINESS WEEK



A *Rare* COMBINATION

Your time is as valuable as your money. That's why OLDE offers professional investment advice *with* commission savings. Most discount brokerage firms don't provide advice: OLDE does. And unlike full-service/full-cost brokerage firms, OLDE also offers significant cost savings. This rare combination of advice with discount commissions gives OLDE the unique ability to help you save time *and* money – a combination no other major national brokerage firm provides.

With OLDE, your investment needs can be met with *one* brokerage firm. You'll receive *more* than advice or commission savings alone; you'll receive *both*. Whether you are looking to save for a new home, start a business, invest for your children's education or secure your retirement, OLDE can help with an extensive selection of investment choices and innovative services that include:

- Money market funds
- Stocks, bonds, mutual funds and unit investment trusts
- Secure client access to account information via www.OLDE.com
- No annual fee traditional, Roth and Education IRAs
- Small business retirement plans
- Tax-free and government securities
- Account protection up to \$25 million
- Investment research
- Free account transfer service
- Offices nationwide

VALUE YOUR TIME & MONEY

Advice &
SAVINGS

One Brokerage Firm
One Call

1-800-USA-OLDE

Or Check The Yellow Pages
For The Office Nearest You
www.OLDE.com

OLDE

America's Full Service Discount Broker

HEALTH CARE

THE HEALERS' REVENGE

Doctors and hospitals begin to wrest control from HMOs

Across the seven Ohio counties that encircle Cleveland along Lake Erie, the future of American health care is unfolding at full tilt. Even the smallest community hospitals are erecting operating rooms, cancer wards, and outpatient buildings. Doctors are flocking to gleaming family clinics located like so many Burger Kings near highway exits and shopping malls.

It is not an exercise in medical moderation. The big, cash-rich health-care conglomerates in town, Cleveland Clinic Foundation and University Hospitals, have spent heavily over two years to seize command of the region's 2.8 million residents. They have acquired or affiliated with dozens of smaller hospitals and hundreds of physicians, creating soup-to-nuts megachains with nursing homes and rehab centers. And it's working: Patients are arriving in droves.

"MAJOR SHAKE-UP." This is the healers' revenge, the reaction to managed care's decade of hegemony over the nation's \$1 trillion health system. In Cleveland and dozens of other markets, doctors and hospitals are winning the power to call the shots with insurers, take control of medical decision-making, and, possibly, make care better. "The industry is headed toward a major shake-up in the next three to five years," says Drew E. Altman, president of the Henry J. Kaiser Family Foundation, a health study group.

The emerging medical powers don't all look like Cleavelands'. Some are organized around big hospitals, others dominated by doctors or so-called physician practice management companies. Different structures are evolving to fit each local or regional market. Most, though, derive economic clout from the same phenomenon—the decade of panicked consolidation that has doubled, to more than half, the proportion of physicians employed by health-care entities. As they leave solo practices and small partnerships to join larger combinations,

says Burlington (Mass.)-based consultant Jayne Oliva, doctors "are getting the chutzpah and organization to dictate terms."

In the face of such strength, managed-care insurers' old arsenal has lost its pop. HMOs' shock treatment was crucial to shrinking the bloated system, helping to slow health-spending growth to 4.4% in 1996 from 12.2% in 1990. But that therapy depended mostly on holding down payments to doctors and hospitals, rather than on actually streamlining medical processes. Now, payments are heading up again, and HMOs' recent efforts to micromanage care have yielded slim savings—serving mainly to antagonize consumers and legislators. "They haven't been able to attain the efficiencies they expected," says Woodrin Grossman, a Price Waterhouse partner.

The shift in power is playing out in myriad ways. In Utah, PacifiCare Health Systems, an insurer covering 3.8 million patients in 10 states, has lost millions trying to win patients from Intermountain Health Care, a nonprofit web of physicians and hospitals. Penn State Geisinger Health System has fended off managed-care insurers in eastern Pennsylvania by linking its own HMO to a network of rural physicians. In the New York region, many doctors have refused to sign new contracts from Aetna US Healthcare that would lower payments and restrict autonomy.

As a result, managed-care profits have soured quarter after quarter, with average pretax operating margins slipping to 3% last year, from 8% in 1994. So insurers are retreating. Their HMOs

and related plans have become "much transitional structures," says David Lawrence, chairman and CEO of Kaiser Foundation Health Plan, the nation's largest HMO. Many are gradually abandoning attempts to actively manage care and financial risk. Instead, they are contenting themselves with more predictable—but smaller—profits from marketing and administration, a trend

As they band together, "doctors are getting the chutzpah and organization to dictate terms," says one consultant





reduces the role and value-added managed-care plans," says Paul B. Burg, president of the Center for Health System Change. Many HMOs don't yet acknowledge change. "I don't know of a shift in at all," says William W. McGuire, physician chairman and CEO of giant Healthcare Corp., one of the few healthy insurers. "You've seen hostility to dominate, buying other hospital doctors' groups. They've in-ly failed." Says Mark Banks, nt of Blue Cross & Blue Shield nesota: "Very few provider organizations have developed the key skill challenge health plans." ainly, HMOs aren't going to dis-

appear. Some provider groups—notably MedPartners Inc., a Birmingham (Ala.)-based national consortium of doctors—have hit cost crunches and suffered losses. And insurers, too, are consolidating to gain share in local markets. On May 28, United Healthcare announced it would pay \$5.4 billion for Humana Inc., creating the largest U.S. managed-care company with new power in the Southeast and Midwest. Similarly, Aetna Inc. will build up in key eastern markets with its pending \$1 billion purchase of New York Life Insurance Co.'s NYLCare unit.

PHYSICIANS

As they shift from solo practices to salaried positions, many doctors like the stability

But at the same time, insurers are ceding control through various arrangements that pass off insurance risk. Some mechanisms, known as capitation, pay providers—that is, doctors and hospitals—flat fees to handle part or all of a patient's care, regardless of the treatment actually needed. Other deals allow providers and insurers to set percentages of the overall premium.

In such contracts, providers take on financial exposure but also the opportunity for profit; if they can manage care for less than the budgeted payment, they reap more of the gains. Many

Social Issues

HMOs, unable to control medical costs but under pressure to deliver employers ever lower prices, are agreeing to such schemes. Risk-sharing accounted for 31% of all HMO contracts with providers last year, up from 25% in 1996, according to Deloitte & Touche.

What providers do with their renewed autonomy will be crucial to the quality and cost of health care. In the best of worlds, risk-sharing will motivate them to lift productivity. Physician groups in California, for example, are reporting huge savings from efficient case management, streamlined referrals, and specialized clinics. Doctors are paid for performance, based mostly on quality measures and patient feedback. At five such groups studied by Lawrence Casalino of Stanford University, patients spent one-third fewer days in hospitals than the California average. Physicians "can allocate premium revenue to where it's best spent," Casalino says.

Few providers elsewhere are so advanced. And lacking such sophistication, newly empowered doctor-hospital combos may end up sparking a resurgence in medical inflation with overbuilding, duplication of services, and higher prices without productivity improvements. That prospect worries some employers. "I would encourage everybody not to shoot managed care dead," says J. Randall McDonald, executive vice-president at GTE Corp. "The alternative is very concerning."

On the other hand, companies are equally concerned about HMOs' ability to hold the line on costs. After four years of stability, large employers' health insurance bills rose by 5% this year and probably will jump more in 1999. In the short term, that's good for health insurers' rickety margins. But corporate purchasers aren't pleased. In a



EMPLOYERS

In Cleveland, Parker Hannifin cut costs 20% by negotiating directly with doctors and hospitals

survey this year by the Washington Business Group on Health and Watson Wyatt Worldwide, employers predicted their health costs would rise an annual average of 7.5% over the next two to three years; half said they would respond to rising costs by switching insurers.

Indeed, some companies already are moving away from traditional insurers. In the past two years, Motorola Inc. has halved the number of employees in HMOs and moved most into a practitioner network designed by Private Healthcare Systems Ltd. in Waltham, Mass. PHS does the contracting, but Motorola administers its own claims. In Cleveland, Parker Hannifin Corp. lowered costs 20% by negotiating directly with doctors and hospitals. "We talked to the plans, but we determined that for what we would pay those folks, we could try

it ourselves," says Thomas S. Roos, former Parker executive who devised the strategy.

Such schemes were largely unthinkable even years ago, when HMOs loomed over a cost-driven health system. Managed care thrived by creating fixed networks of doctors and hospitals that agreed to discount rates. The discipline reduced employers' health costs by up to 20%. And HMOs helped to rationalize the complex system.

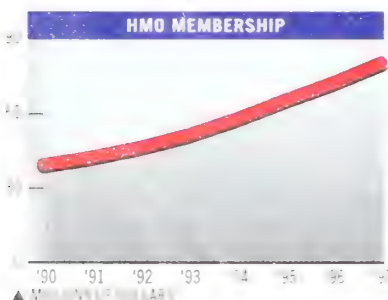
As America flooded into such

plans in the '90s, though, the early model began to break down. Patients and employers, especially outside California where HMOs were entrenched and widely accepted, pressed insurers to enlarge provider rosters. Insurers found it hard to manage expenses and data in larger networks. Worse, competing networks came to look alike, with providers sharing up to 80% of their physicians. With little to differentiate themselves, insurers starved for market share were forced to compete on price.

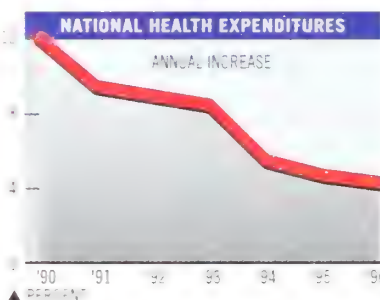
BACKLASH. Insurers already have taken the quick fix—raising premiums. They likely to keep pursuing mergers, though attempts to create dominant "national" organizations haven't lived up to expectations. Aetna, PacificCare, Minnesota Blue Cross, and Cleveland's Medical Mutual of Ohio are inking long-term contracts with providers, aiming to make medical expenses more predictable.

Such strategies, though, are limited

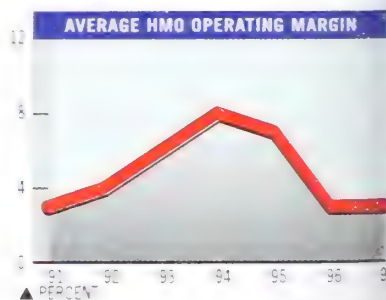
HMOs CONVERTED THE MASSES...



...AND HELPED BEAT INFLATION...



...BUT THEY CAN'T MAKE MUCH MONEY



DATA: STANFORD C. BERNSTEIN & CO., SALOMON SMITH BARNEY HEALTH CARE FINANCING ADMINISTRATION



Half-Page FSI

Full-Page FSI

The research results are in: Full-page FSIs can grow your sales.

The latest study proves that if you want to move your brand upward, full-page Free-standing Inserts (FSIs) out-perform half-pages. These numbers on for size: In eight packaged-goods categories, full-page FSIs performed, on average, 47% higher redemptions,

44% more new buyers and produced 50% greater incremental volume.

To learn more, call the FSI Council at (888) FSI-0881. If you want to build your consumer base, full-page FSIs should be part of your promotion family.



FSI Coupons. Rediscover what they're worth.

Social Issues

by broad public antagonism that has crystallized into hundreds of anti-HMO bills, enacted or pending. Some states mandate 48-hour hospital stays for new moms, for example, or require insurers to pay for "reasonable" emergency room care. In the House, 221 representatives from both parties have sponsored the Patient Access to Responsible Care Act, which, among other things, would allow patients to sue health plans for medical malpractice.

PROMISE AND PITFALLS. Such antipathy indicates Americans prefer that providers run the show. What would that mean in practice? There's no single answer. Physician and hospital organizations are evolving in starkly different ways from one town or region to the next. The Marshfield (Wis.) Clinic owns its own HMO that steers patients to a network of 540 staff doctors. In Southern California, big doctor groups maintain "virtual" relationships with hospitals, contracting for facilities and services as needed.

Cleveland's medical boom, though still nascent, reflects some of the promise of this nationwide transformation. By acquiring hospitals and physician groups, the area's big medical centers have created massive feeder systems that boost



patient volume and help retain business they might otherwise lose.

At the same time, doctors and hospitals alike have gained muscle. Four years ago, Anita A. Bojtas gave up a thriving pediatrics partnership because, she says, "as health insurance became more complex, it became harder for small practices to keep up." Now, she's a salaried staffer,

PATIENTS

Cleveland-area families get local care with access to nearby experts

financially stable and relatively autonomous, in the Cleveland Clinic's booming Independence, Ohio, office.

Meanwhile, the benefits of coordinated care across the huge system are emerging. University Hospitals is hiring new staff and promoting uniform care paths to improve emergency service. It's linking radiology departments, too. By next year, suburban Bedford Medical Center will be able to electronically deliver a CAT scan of a critically injured patient to UH specialists in Cleveland even before it transfers the patient. Cleveland Clinic rotates specialists from downtown through all its satellite offices, so suburban patients have monthly access to sports-medicine experts and audiologists.

The object: To decentralize medicine while linking local providers with sophisticated equipment and staff when needed. Chuck and DeAnne Miller

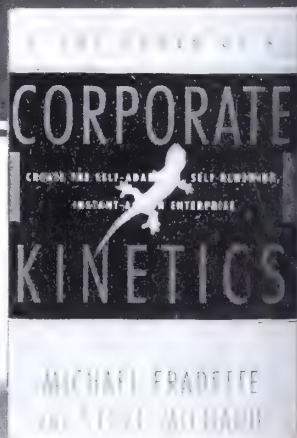
IMAGINE RESPONDING TO CUSTOMERS WITH ZERO PATIENCE.

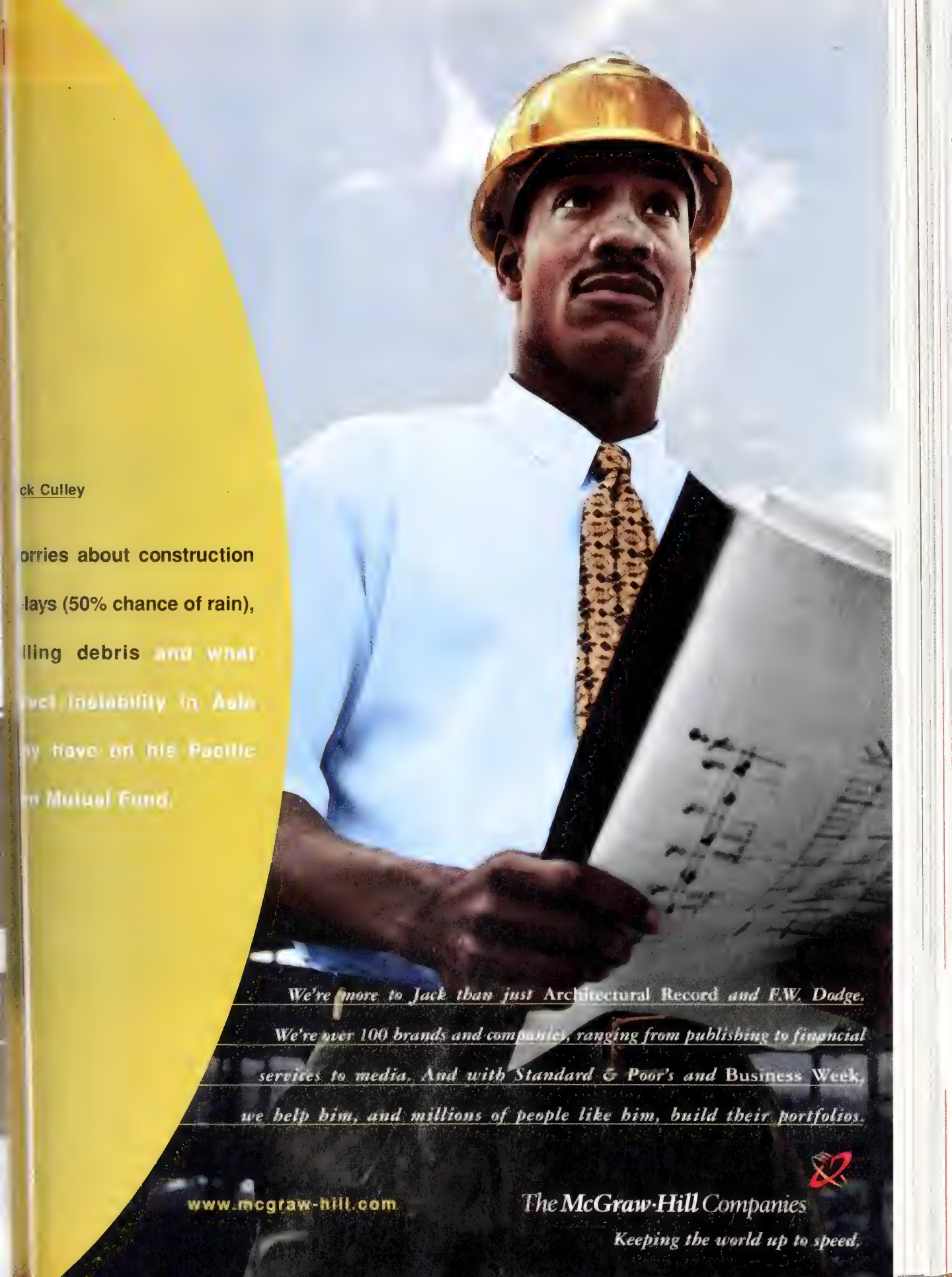
In zero time.

"HANG ON TO YOUR HAT AND SMASH YOUR CRYSTAL BALL." Tom Peters

It's not your imagination - it's really happening. And it's called *The Power of Corporate Kinetics*, the first new business model for today's unpredictable world. Learn how leading companies and people everywhere are starting to become self-adapting, self-renewing and poised for instant action.

The Power of Corporate Kinetics - the definitive guide for an unpredictable world.





Jack Culley

Worries about construction delays (50% chance of rain), falling debris and what Jack's instability in Asia may have on his Pacific Mutual Fund.

We're more to Jack than just Architectural Record and F.W. Dodge. We're over 100 brands and companies, ranging from publishing to financial services to media. And with Standard & Poor's and Business Week, we help him, and millions of people like him, build their portfolios.

www.mcgraw-hill.com

The McGraw-Hill Companies

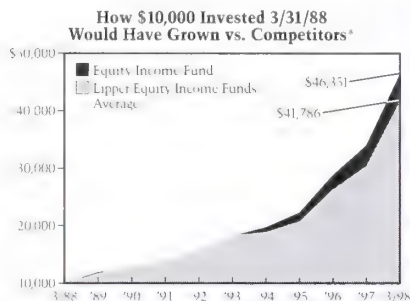
Keeping the world up to speed.



IMPRESSIVE PERFORMANCE, CONSERVATIVE APPROACH

100% NO LOAD

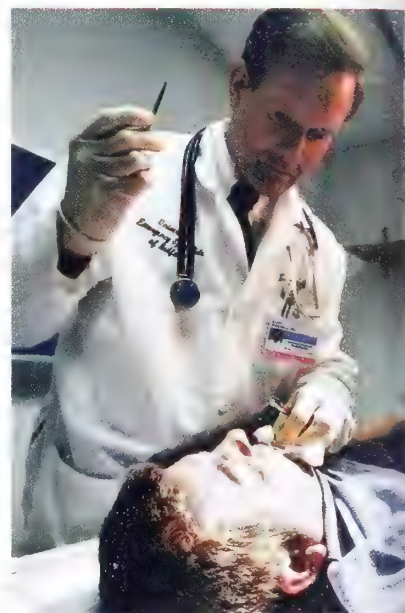
T. Rowe Price Equity Income Fund can help cushion your portfolio against the ups and downs of the market by investing in well-established companies that offer strong dividends rather than capital appreciation potential alone. And, as shown in the chart, this fund has consistently outperformed its peer group average. Of course, past performance cannot guarantee future results. No sales charges.



Call 24 hours for your
free investment kit
including a prospectus
1-800-401-5341
www.troweprice.com

Invest With Confidence™
T. Rowe Price

*36.23%, 20.55%, and 16.58% are the fund's average annual total returns for the 1-, 5-, and 10-year periods ended 3/31/98, respectively. Figures include changes in principal value, reinvested dividends, and capital gain distributions. Investment return and principal value will vary, and shares may be worth more or less at redemption than at original purchase. (Source: Lipper Analytical Services, Inc.) Read the prospectus carefully before investing. T. Rowe Price Investment Services, Inc., Distributor. EIFO42239



LINKED CARE

One Ohio group
links radiology
departments
across the network

5-month-old son
Chaz, gets weekly
blood tests for
severe anemia
from his
pediatrician
Ashtabula, east
of the city, and

the doctor faxes results to a specialist
UH's renowned Rainbow Babies & Children's Hospital. When Chaz's blood count drops, the Millers travel to Cleveland for a transfusion. Eventually, UH installs Rainbow-staffed satellites at its captive hospitals, such procedure will be done closer to home.

Promising as it is, there are pitfalls in this revolution. Not all physician-hospital groups have the expertise to take on the financial risk inherent in capitation, analysts warn. The providers' land-grab, moreover, risks creating new inefficiencies. Both Cleveland institutions boast world-class organ-transplant centers, and Cleveland Clinic is creating a children's hospital to compete directly with Rainbow Babies & Children's Hospital. "All this consolidation is definitely in the hospitals' interests," says Patrick Casey, who heads the employer-sponsored Health Action Council of Northeast Ohio. "The question is: Is it in our interests or in consumers'?"

The decline of the HMO, in other words, is no miracle cure. The emergence of powerful local providers working easily rationalize a byzantine health-care system. But closer to the customer, equipped with the right information and motivated to cooperate, providers stand a good chance of getting it right.

By Keith H. Hammonds in Cleveland, with bureau reports

Stuttering Didn't Silence His Song.



Country music star Mel Tillis has entertained audiences around the world. Mel still copes with stuttering, but it hasn't kept him from a highly successful career as an entertainer and recording artist.

For more information on what you can do about stuttering, write or call us toll-free.



**STUTTERING
FOUNDATION
OF AMERICA**

A Nonprofit Organization
Since 1947 — Helping Those Who Stutter
stuttersfa@aol.com • www.stuttersfa.org

1-800-992-9392

A LAUNCH GM CAN'T AFFORD TO BLOW

As new pickups may redeem its reputation for retoolings

Four years ago, General Motors Corp. suffered the costliest manufacturing debacle in its history. Chaos reigned as workers at the Easton, Ohio, assembly plant struggled to build an all-new Chevrolet Cavalier while learning different jobs with new equipment and procedures. Because

tation as the auto industry's laggard on new-model changeovers. But GM executives have taken steps to improve with each new launch and now say they've learned from those hard lessons. They'd better be right. Over this summer, GM's new systems will be put to the test: The company is switching production to

Morgan Stanley Dean Witter & Co. analyst Stephen Girsky. A quick startup is also vital since high development and overhead costs mean auto makers don't make money on a new vehicle until the factory nears full speed.

That's why GM is determined to get the transition right. "We've got to ramp this baby up big-time," says G. Richard Wagoner Jr., president of GM North America. To do that, GM has made a big push to catch problems much earlier, while there is still time to redesign and retest components or tools without huge costs or long delays.

A successful launch also could give GM bragging rights. It sells some 700,000 full-size pickups a year in the U.S., trailing only Ford Motor Co.'s F-series pickups as the top-selling vehicle in America. GM executives boast that the two much-improved new models will gain share



IAWA TRUCK PLANT: Memories of Cavalier fiasco are still fresh

delays in installing key dies and tools, body doors, fenders, and windows didn't properly. Ultimately, it took more than a year for the assembly line to reach full speed. The resulting shortfalls of Chevy's mainstay cars cost well over \$1 billion in lost sales, trampling earnings and stock price. That and other similarly painful experiences—with minivans and Chevy's Buick, for instance—gave GM a repu-

1999 versions of its biggest-selling product line, the Chevy Silverado and GMC Sierra full-size pickup trucks.

The stakes this time are enormous. Together, the pickups account for 15% of GM's North American unit sales; they haul in upwards of \$15 billion in revenues a year. And they're even more important to the bottom line. Because profit margins are much healthier for trucks than cars—each GM pickup contributes about \$7,000 to gross income—the two pickups churn out about 40% of GM's North American profits, figures

and combined will race past Ford for the first time since 1994. "We expect to conquest both Dodge and Ford with our new trucks," says Michael A. Grimaldi, head of GM's big-truck project. Counters Paul Morel, Ford's truck brand manager: "We certainly won't give up the No. 1 slot without a fight."

THREE PLANTS. Grimaldi says the new manufacturing strategy can slash the time to reach full line speed by 40% over previous GM model changeovers. GM won't divulge key dates or targets, but sources familiar with the process

LESSONS LEARNED

After years of trouble changing over its factories to new models, GM is counting on these steps to improve the transition:

- ▶ Major new equipment is installed months in advance so it can be debugged
- ▶ Workers train on new equipment months before the launch
- ▶ Assembly workers and engineers build hundreds of early test vehicles about two years before regular production begins
- ▶ GM holds earliest test tracks to the same quality standards as salable vehicles

The Corporation

say GM expects its Oshawa (Ont.) truck plant to be running at full speed—about 60 trucks per hour—within four months, by early November. Still, that's a far cry from the standard set by industry leaders Toyota Motor Corp. and Honda Motor Co., which take only a couple days of downtime and return to full line speed within a few weeks when they change over. But that's partly because the Japanese companies often reuse the same flexible manufacturing equipment model after model.

As manufacturing launches go, GM's pickups rank as a complicated one, involving three factories and an array of model variations. Introducing new en-

gines at the same time adds another layer of complexity—one the Japanese auto makers would avoid. Most important, because the trucks' underpinnings differ significantly from their predecessors, GM had the tricky job of installing new body shops in all three plants. Any slip by GM or its suppliers can stall the whole works. "There are so many new components and new processes that there's a great possibility for snafus," warns Michael Robinet, managing director at Farmington Hills (Mich.)-based consultant CSM Forecasting.

GM started overhauling pickup production two years ago when a \$103 million Validation Center in Pontiac, Mich.,

started producing 204 "beta" versions, followed by 140 prototypes. Those trucks were built using newly designed parts and the same tools and processes to be used later in regular factories. In the past, GM might have built 100 prototypes. Accelerating that early start helped identify 3,700 problems with parts and procedures—everything from suspension components delivered by outside vendors to instrument panels that didn't fit. Previously, Grimaldi says, these problems would have emerged during "pilot production," when assembly plants began building the final round of test vehicles and lingered into regular production.

Those practice vehicles also gave

NOT EXACTLY TOMORROW'S TRUCK TODAY

Let's suppose General Motors Corp. does successfully carry off the manufacturing launch of its full-size pickups without any major hitches. How will the new trucks do when they arrive in showrooms this fall?

GM, full of marketing bravado, insists the new Chevy Silverado and GMC Sierra will gain share by boosting sales faster than rival offerings from Ford Motor Co. and Chrysler Corp.'s Dodge Div. No question, loyal Chevy truckers will flock to the new models, which are a major improvement over their popular predecessors. The new trucks boast better brakes, a sturdier frame, lower step-in height, and the roomiest interior in the segment.

But GM may be towing a heavy load in trying to win new customers. That's because it decided not to equip the new pickups with today's hottest truck option: a fourth door, which pickup leader Ford and No. 3 Dodge will both offer by this fall.

FAMILY FACTOR. GM was understandably reluctant to rock the boat with a radical redesign. Sales of its old trucks shot up 8% in the current model year—impressive for a 10-year-old product. But many new truck buyers are turning to pickups as family vehicles. And the fourth door, which allows access to the driver's side rear seat, is increasingly popular for loading passengers or



SILVERADO: *The lack of a fourth door may limit appeal*

stowing groceries, a briefcase, or golf clubs. "If you want to continue to get the person who's using the truck as a family vehicle, the fourth door is clearly important," says auto consultant Christopher W. Cedergrén at Nextrend Inc. Concedes Chevy Silverado brand manager Kurt Ritter: "In a perfect world, you would want four doors."

GM's oversight is much like the one Ford committed in 1994 when its Windstar minivans debuted with a single sliding passenger door just before Chrysler and GM introduced wildly popular second sliders. The omission cost Ford an estimated \$560 million in reengineering costs and hundreds of millions more in lost sales. Windstars with a second sliding door will arrive this summer.

How did GM goof? Its marketers say customers weren't enthusiastic about a fourth door during interviews several years ago, when even

a third door was a novelty. Chrysler and Ford, however, took the overwhelming popularity of a third door as a cue to rapidly redesign and retool for a fourth. Sales of Dodge's four-door Quad Cab Ram pickup truck, which was introduced last fall, now account for 77% of Ram extended-cab sales. This fall, four doors become standard on Ford extended-cab pickups. By the time GM caught on, adding another door

would have cost a fortune and risked delaying the arrival of the new trucks. The company now says that it will add a fourth door in the 2000 model year.

In the meantime, no one expects GM's pickup sales to crater. Analysts and dealers say that first-year sales of the new trucks should match current sales of the older trucks. However, they say the missing door will make it hard for GM to steal many Ford or Dodge customers and may force it to cut prices on the three-door trucks. "They'll be able to sell all the three-doors they make," says Morgan Stanley Dean Witter & Co. analyst Stephen Girsky. "The question is how much of a discount they'll have to offer to sell them." The trucks may be, as the ads say, "like a rock." However, GM's design decision now has it between a rock and a hard place.

By Kathleen Kerwin in Detroit



With Magnifica Class, Alitalia raises the standard of flying to a fine art.

Alitalia, the world's premier airline to Italy, presents Magnifica Class. A masterpiece of style and service that reflects the very best of Italy. Outstanding cuisine and superb wines served with the warmth and friendliness that could only come from people who have turned living into an art form. Every detail in Magnifica is first class, from our luxurious, leather-trimmed seats to our award-winning, five-star meals

and international wine selection. Best of all, your Magnifica Class flight to Italy, including chauffeur-driven transfers in Rome and Milan, costs the same as a business class ticket. Alitalia offers superior service to 135 cities in 63 countries worldwide, so whatever your travel plans, call 800-223-5730 or visit our website at www.magnifica.com for more information.

MAGNIFICA CLASS. THE BEST OF ITALY.



Alitalia participates in the frequent flier programs of Continental and US Airways. Newark flights operate in partnership with Continental Airlines and feature BusinessFirst™ service.

Alitalia

We are pleased to announce the closing of the

FOX PAINE CAPITAL FUND, L.P.

\$ 500,000,000

FOR GROWTH-ORIENTED MANAGEMENT BUYOUTS



For further information, call us:

**Saul Fox
Dexter Paine**

TEL: 650-525-1300

FAX: 650-525-0657

**Child-proof caps protect
those who can't read.
Medicine labels protect
those who can.**

Medicine
Tablets

BALM'S MEDICINE

**Read your medicine label. It tells you all you need to know.
It's the first step to getting better.**

A message from the
Council on Family Health
A public service by the manufacturers of medicine



The Corporation

earlier opportunities to evaluate the finished product. For instance, on long rides in beta vehicles, engineers from GM and its suppliers discovered the seat cushions needed to be redesigned for greater comfort. And GM began tracking the new truck's quality from the early test models, instead of waiting for regular production. Flaws such as marred paint and dashboard squeaks were caught before the factory started making trucks for customers.

WILD CARD. Meanwhile, GM began moving machinery into its assembly plants during Christmas and summer production shutdowns. By five months before pilot, each plant had a new body shop, where sheet metal stampings are welded together to form the shell of the vehicle. While the old body shops continued to crank out bodies for '98 pickups, workers took turns debugging the new equipment and learning to operate it.

Will it work? The big test comes in late June when regular production of the new pickups begins at GM's Oshawa plant. Another plant in Pontiac, Mich., will start making trucks a few weeks later, followed by a third, in Ft. Wayne, Ind. Two other factories will continue to supply dealers with the old models through yearend. Given GM's track record, some big investors, analysts, and GM dealers admit they worry whether the company can launch the truck without a hitch. "I have a little more confidence than in the past, but it's still not a certainty," says Pittsburgh Pontiac dealer Rob Cochran. "The worst thing is to create a big stir and then not have enough vehicles to satisfy customers. There's a wild card, too: Labor unrest threatens strikes at several GM plants crucial to truck output.

GM executives insist that the ramp-up is on schedule. One good sign is the launch of the 1999 Pontiac Grand Am—a new, high-volume vehicle built with some of the same techniques—is progressing smoothly. The first of two factories in Lansing, Mich., making the compact cars approached full production rates in May, about six months after the turnover began. Pontiac dealers say they're getting plenty of high-quality Grand Ams.

The auto industry will be watching Oshawa closely this summer to see if the heavy preparation pays off. Success would go a long way toward erasing the humiliation of Lordstown. More important, it would signal that the world's largest auto maker is finally getting some traction in its core business of pumping out new cars and trucks.

By Kathleen Kerwin in Oshawa, Ont.

And the Winner Is...



Pictured: Goodby Silverstein & Partners Creative Team, Jon Soto, Art Director, Chris Callis, Photographer, Al Kelly, Writer, Jenny Taich, Art Buyer, Steve Simpson, Creative Director.



On April 2, Goodby Silverstein & Partners won the Business Week \$10,000 Best of Show Award at the 1998 MC ICON Awards ceremony in San Francisco.

Hailed by the ICON judges as having it all – funny copy, intriguing photography, and a clear message – the “Cat & Mouse” print campaign created for Hewlett-Packard Deskjet 722C is a true winner. And a big one at that!

BusinessWeek

A Division of The McGraw-Hill Companies



Most Read. Best Read. Worldwide.



THE UNION CHIEF...

Teamsters boss Carey maintains that he knew nothing about donation swaps



...THE MONEYMAN, AND THE PREZ

McAuliffe, the top fund-raiser for Clinton and the Democrats in 1996, denies that there was any quid pro quo for some \$600,000 in Teamsters contributions



CAMPAIGN FINANCE

GIVE A LOT, GET A LOT?

How the Teamsters scandal could tar the Democrats

A month before Election Day, 1996, Democratic fund-raiser extraordinaire Terence R. McAuliffe was right where you would expect him to be—working the phones in a second-floor office behind the U.S. Capitol. After pulling in \$43 million as finance chairman for the Clinton-Gore reelection committee, McAuliffe had taken on a fresh assignment: raising money for congressional candidates.

McAuliffe's new title was chairman and chief fund-raiser for Unity '96, an umbrella group formed by House and Senate campaign committees and the Democratic National Committee (DNC). As such, he broached a novel idea to Matthew H. Angle, executive director of the Democratic Congressional Campaign Committee (DCCC): Did Angle know of a donor who might write a check to Ron Carey? The Teamsters chief's reelection

bid faced a tough challenge from James P. Hoffa. Angle, in a Senate deposition, says he was told by McAuliffe that "if the DCCC could help Carey, then we could get contributions back to the DCCC."

Angle ran the idea past Representative Martin Frost (D-Tex.), the DCCC chairman. They took a pass. But McAuliffe persisted. He raised the idea with Rita M. Lewis, then-finance director of the Democratic Senatorial Campaign Committee, who discussed it with her boss, Senator Bob Kerrey (D-Neb.).

These conversations have become the focus of a federal grand jury in Manhattan that is investigating whether Democratic fund-raisers conspired to find donors for Carey's campaign in hopes of getting back hefty union contributions. The case threatens to drag the Dems even deeper into the controversy over questionable fund-raising practices.

The yearlong probe into abuses Carey's campaign consultants has now widened to include McAuliffe; his deputy, Laura A. Hartigan; and ex-FCI Finance Director Richard L. Sullivan. Sources close to the investigation say none of them has been targeted by a grand jury, but they remain a focus of the probe. All three deny wrongdoing and through their lawyers say they are cooperating with the investigation.

RIPPLES. Of all the finance inquiries, the Teamsters case is the only one so far that has had serious legal consequences. Carey's campaign manager and two consultants have pled guilty in federal court to charges relating to laundering campaign funds. Ex-Teamsters political director William W. Hamilton Jr. was indicted on Apr. 27 by the federal grand jury in New York and is fighting charges of embezzlement, fraud and perjury. One election monitor overturned Carey's victory; another barred him from running again, giving Hoffa the pole position in a rerun slated for the fall.

The charges against the Carey campaign include embezzlement of nearly \$1 million in Teamsters funds in a complex series of money-laundering maneuvers. In one alleged case, wealthy donors were induced to contribute to Carey; then Teamsters money was used to back left-wing causes that the donors normally would have supported. Carey denies he was involved.

Sometimes
bigger is
better.

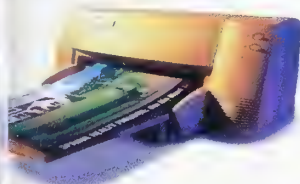


"Cozy Charmer"



"Gracious Estate"

When you can print things big, there's almost no limit to what you can do. But our new DeskJet 1120C printer doesn't stop there. It will print all sizes from postcards to posters—including 11x17 pages and miniposters as large as 4 1/2 feet. And it will also produce color booklets that are ready to be folded and stapled. All using our PhotoREt II printing technology for extra-sharp detail in photos. And as you can see, these things can make a rather significant difference. To learn more about it, please visit us at www.hp.com/go/dj1120



*The HP DeskJet 1120C, \$499.**
**Suggested U.S. retail price*

in—or even knew about—the swaps.

One such plan allegedly involved the Dems, and Hamilton's indictment may provide a road map for U.S. Attorney Mary Jo White's possible case against party officials. Her office is focusing on activities from June to November, 1996, when both Clinton and Carey were frantically raising money.

Early that June, Carey campaign adviser Martin Davis met with McAuliffe, a close friend. Davis, who has since pled guilty to fraud and conspiracy, told prosecutors that he offered to raise \$1 million for Clinton in exchange for help for Carey. The offer to help Clinton was not in itself unusual. Since Carey had become head of the International Brotherhood of Teamsters in 1992, the union had donated some \$8.5 million to Democratic candidates and been granted access to the President's inner circle on important labor matters.

But McAuliffe says Davis never mentioned a quid pro quo and that he referred Davis to Hartigan. On June 17, McAuliffe and Hartigan escorted Davis to a lunch with Clinton at the White House attended by eight other donors. Six days later, the Teamsters gave \$236,500 to state Democratic parties.

Sullivan and Davis have also testified that they discussed Davis' swap idea at an early June lunch, arranged and attended by Hartigan, at The Palm restaurant in Washington. And at a Senate hearing last fall, a DNC aide laid out how he researched, at Sullivan's request, whether a Philippine exec who could not legally give to the DNC might instead give to Carey. Because employer donations are barred in Teamster elections, the exec's money was rejected.

"UNDERSTOOD." In September, 1996, after McAuliffe took on his new duties at Unity '96, Davis says McAuliffe asked him for a \$500,000 contribution. "It was understood between us that he and others would try to identify a person who would contribute \$100,000 to the Carey campaign," Davis told prosecutors. McAuliffe denies this.

When McAuliffe mentioned to Lewis of the Senate campaign committee that finding a Carey donor would get a contribution back for Unity '96, she took the idea to Kerrey. The senator consulted with Bernard Rapoport, a Waco (Tex.) insurance executive who has close ties to labor and is one of the Democrats' biggest donors. Together, they decided not to pursue the swap idea. Both



LAURA HARTIGAN

WHAT DID MCAULIFFE KNOW?

EARLY JUNE, 1996 Martin Davis, campaign adviser to Teamsters President Ron Carey, meets with Terence McAuliffe, finance chairman of the Clinton-Gore Reelection Committee, and offers to raise union money for Clinton-Gore. In return, Davis told a grand jury, he sought McAuliffe's help in finding \$100,000 for Carey. McAuliffe denies this and says he referred Davis to Laura Hartigan, finance director of Clinton-Gore.

EARLY JUNE, 1996 Hartigan, Davis, and Democratic National Committee finance director Richard Sullivan lunch at The Palm in Washington. Davis again seeks help in raising money for Carey.

JUNE 12, 1996 A Hartigan memo directs Davis to obtain \$250,000 from the Teamsters and donate it to state Democratic parties.

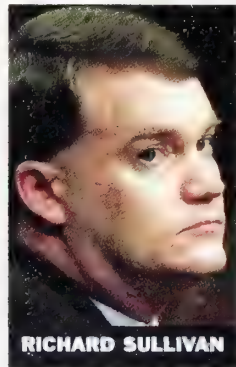
JUNE 17, 1996 McAuliffe and Hartigan escort Davis to a White House lunch with Clinton.

JUNE 23, 1996 Teamsters Political Director William

Hamilton issues Teamsters checks totaling \$236,500 to 35 state Democratic parties. White House documents credit McAuliffe with raising the funds. Shortly after, the DNC's Sullivan seeks a donor for the Carey campaign.

AUG. 10, 1996 Hartigan asks Davis for \$1 million more in Teamster donations. The next day, Davis writes "smoking gun" memo to Hamilton, saying that Democratic officials haven't yet made good on "their commitment" to find donors for Carey. The Teamsters ultimately give \$350,000 more to Clinton's campaign.

SEPTEMBER, 1996 Hamilton indictment alleges that Davis and McAuliffe discuss a swap. This



RICHARD SULLIVAN

time, the Teamsters would give \$500,000 to the Democrats in exchange for \$100,000 for Carey. No swap takes place.

OCTOBER, 1996 Two congressional campaign committee aides testify that McAuliffe, as late as October, 1996, pursued the swap idea with them.

DATA: SENATE GOVERNMENTAL AFFAIRS COMMITTEE, U.S. V. HAMILTON COMPLAINT, MARTIN DAVIS PLEA ALLOCUTION, BUSINESS WEEK

Kerrey and Rapoport have been interviewed by the U.S. Attorney's office.

McAuliffe's lawyer, Richard Benveniste, says his client "put no pressure on anyone or even encouraged anyone. He just put it out there." He adds that McAuliffe never pursued the swap proposal with any donors, either. Congressional campaign committee director Angle agrees that his conversation with McAuliffe lasted only a few seconds and that the idea was immediately dropped. "Apart from not being legal or proper, it wasn't practical," says Angle. Lewis did not return phone calls.

Lewis now works for Washington Group, a lobbying and consulting firm led by John D. Raffaelli. Until 1995, Raffaelli was McAuliffe's law partner, and they remain close friends. In early 1996, he and McAuliffe were hired to help lobby the AFL-CIO Executive Council to switch its union credit-card program from the Bank of New York to House-

hold International. Carey campaign consultant Davis was hired for the swap project, though under a separate contract. Household won the business and agreed to advance the AFL and its member unions \$40 million, which helped labor to pump millions into the '96 elections. Sources close to the investigation say the U.S. Attorney is interested whether the credit-card deal played a role in the swap schemes.

The U.S. Attorney may decide not to press charges because thus far, there is no evidence that attempts to sway donors with the Democrats were successful. But with the Teamsters tallying out about \$600,000, it's clear that Carey's campaign, at least, thought it had a deal with the Dems. If that's the case, it could come back to haunt Democrats this fall when Republicans try to make systemic corruption—from the White House on down—a cutting issue.

By Paula Dwyer in Washington

\$250,000 ISN'T KID STUFF. IT'S WHAT
this child will likely cost its parents — college
included — over the next 21 years. But the future

Formula for success.

always demands great things from you and your
financial representative. The Equitable is doing
some great things to help. Like our state-of-the-
art *Financial Fitness Profile*® — a planning tool that
can help you meet your goals. Like providing our
representatives with the best training available.
And, like being a member of the Global AXA
Group, one of the world's largest, strongest and
most innovative insurance and investment orga-
nizations — with over \$500 billion* in assets
under management. To learn more, call 1-800-
590-5995 or visit us at www.equitable.com.

EQUITABLE

Member of the Global  Group



The Search for

Like the late-arriving prospectors panning for gold in California's riverbeds after 1849, today's investors are finding it tougher and tougher to strike it rich. The easy-money years of 20% or 30% market gains seem to be over, and no one can be certain whether the stock market will even continue its long rise. Weak growth in U.S. corporate profits, shaky economies across Asia, and wild cards such as the Year 2000 computer bug are all making the markets jittery and unpredictable. But investors shouldn't despair: While stocks and other investments have been picked over, they've hardly been picked clean. There's still gold in them thar hills. You just have to know the right spot to look.

BUSINESS WEEK's annual Midyear Investment Guide should help point the way and give you the right tools for the job. First of all, how should you approach the overall market? With a high degree of discipline and selectivity. The big-name, large-cap stocks are already sporting high price-earnings ratios, and they probably don't have a great deal of play left in them. But lofty valuations are by no means universal. Within the un-nifty 450 lie a number of undiscovered treasures (page 86). Merger candidates, especially in the telecommunications and banking businesses, are popular investments these days. Buyers need to apply tough standards, however. Look for value that transcends the stock's merger potential: That is, buy a stock that has reason to gain even if it doesn't end up a takeover target (page 88).

HIDDEN BRIGHTNESS. The rich vein of high-tech stocks has indeed been heavily mined, and sky-high multiples hardly seem justified by the stocks' recent performance. But analysts expect a healthy rebound in profits during the next year or so, as computer inventories are worked down and as new Internet and software products come to market (page 90). Then there's the biotech arena, which can be a heartbreaker, with expensive long shots and spectacular strikes. With the biggest price gains occurring before new drugs get approved for sale, investors should tread carefully and be sure they know when to exit (page 94). Real estate investment trusts, meanwhile, may be ripe for a comeback (page 98).

There are some investments, of course, where it's a



challenge to see the bright side. With many of Asia's economies taking a further drubbing in recent weeks, and with still no signs of improvement in Japan, it's hard to make the case for plowing money into a region that may not yet have hit bottom. Also, there's no telling what will happen next in highly volatile and risky financial markets such as Russia's.

But as longer-term prospects, several overseas investments look attractive. The Latin American markets, for instance,

Value

Today's picked-over market demands extra discipline



...e, haven't faltered as much as those in Asia. And even Asian markets, such as Thailand's, offer the venture-investor a number of interesting buys. In Europe, while, healthy stock markets should continue to rally: consolidation and restructuring present many possibilities (page 100). Among mutual funds, those investing in Europe have been superb performers. So, too, have some of the U.S.-based "focused" funds, which take large positions over stocks (page 108).

SHOT. Of course, you may decide that your best strategy is a contrarian one. Although short-selling is an extreme proposition in a bullish market, the smartest shorts have done their homework, and they typically unveil them stocks at an early stage (page 96). And if you're into retirement and looking at a tidy nest egg that's already invested in the market, don't just bail out of stocks for fear that the good times won't last. Instead, hedge your 401(k) portfolio (page 111).

...ally, bonds do offer a good shot at capital appreciation, especially if rates trend lower. Yield-conscious investors, while, can take a chance on emerging-market debt (page 100). Across a range of investments, the prospecting has gotten tougher this year. But with some effort, determined investors ought to be able to turn up some rich nuggets.

By Karen Pennar in New York

TABLE OF CONTENTS

STOCKS	Even now, it's not hard to find values	Page 86
MERGERS	How to catch the consolidation wave	88
TECHNOLOGY	Internet-powered growth ahead	90
BIOTECH	Warning: May cause dizziness	94
SHORTS	How to short a bull market and live	96
REAL ESTATE	Taking shelter—and comfort, too	98
GLOBAL	Europe is the bright spot these days	100
BONDS	Time for investors to lower their sights	106
MUTUAL-FUND SCOREBOARD	A number of them have managed to squeak past the index funds	108
401(k)s	Crafting a safety net for your nest egg	111
INVESTOR POLL	Few see many alternatives to stocks—and few anticipate a market crash	112
INSIDE WALL STREET	Three savvy plays	114

STOCKS

'It's Not Hard To Find Value'

Bargains still abound—in telecoms, autos, energy...

On Wall Street and Main Street, at the beach and by the pool, around the water cooler and on the Internet, there is one overriding question: Is the stock market too high? The bulls still argue that, in the New Economy of low inflation and technology-driven productivity gains, stocks deserve higher valuations. The bears pooh-pooh that as delusional thinking that's bound to lead to ruin—in a market that has broken all traditional yardsticks.

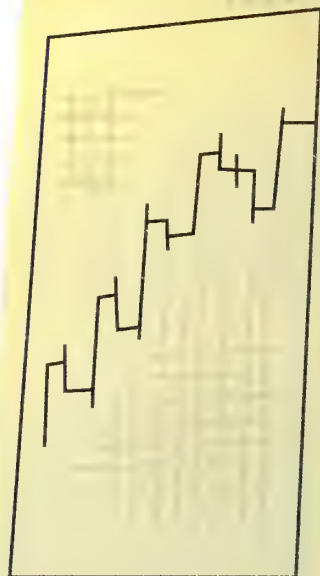
So is the market overvalued? If you buy stocks that are good value, it shouldn't matter. And believe it or not, there are cheap stocks in today's high-priced market. "It's not hard to find value," says Judith A. Jones, portfolio manager for the Victory Value Fund. "This bull market has been concentrated in a narrow band of big growth stocks." Jones sees good opportunities in telecommunications, autos, insurers, and energy—to name a few.

Watching shares of Yahoo! Inc. whiz by at a price 235 times this year's expected earnings can give you a distorted view of what's happening. True, stocks are not cheap by historical stan-

dards. Both the Dow Jones industrial average, at 8923, and the Standard & Poor's 500-stock index, at 1098, sell at 21 times the next 12 months' projected earnings. One reason that the price-earnings ratio is high is that investors have bid up prices for the big multinationals that dominate the indexes, the "Nifty 50," which include such giants as Microsoft, Coca-Cola, and General Electric. Brian F. Rauscher, U.S. equity strategist at Morgan Stanley Dean Witter & Co., says that, based on expected earnings for the next 12 months, the p-e for the Nifty 50 is 24. But for the Un-Nifty 450, it's just 19. One good strategy: do your stock shopping among the 450.

Looking at the S&P 1500—a composite of the S&P 500, the S&P MidCap 400, and the S&P SmallCap 600—the disparity in valuation becomes even more obvious. Smaller stocks, on average, sport lower p-e's and higher earnings-growth rates. That's because investors have been much less willing to buy smaller companies, even with their better earnings growth. So far this year, the S&P 500 is up 12.4%, the MidCap 400 up 6.4%, and the SmallCap 600 up 4.2% (chart). "The earnings for small companies are coming through, and investors will eventually recognize that," says Rauscher. "The valuation of small caps is extremely compelling."

FINE SCREENS. But buying small-cap stocks or un-nifty large-caps doesn't mean you're getting good value. Investors who troll these waters use a variety of quantitative techniques to find potential investments, and then buy after further fundamental analysis. Perhaps the best-known valuation measure is the p-e ratio. Stocks selling



at below-average p-e's are usually said to be value plays—or at least worthy prospects.

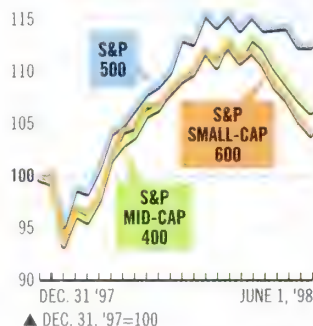
In that light, consider investments from a pool of stocks drawn by Richard Bernstein, chief quantitative strategist at Merrill Lynch & Co. Bernstein looked for companies with at least 5

billion in market capitalization, p-e's lower than average for the S&P 500, and S&P stock ratings of B+ or higher. Those ratings, says Bernstein, are good indicators of high-quality companies. Some 160 stocks fit the bill, including Amoco, Anheuser-Busch, SLM Holdings (Sallie Mae), St. Paul, Toys 'R Us, and United Technologies (table). Says Bernstein: "There are a lot of safe, healthy

companies that people are ignoring."

Of course, such lists are only starting points. Most value buyers will apply other statistical measures as well: dividend yield, price-to-cash-flow ratio, price-to-sales ratio, and how these comparisons have changed over time. Richard J. Moroney, editor of *Dow Jones Forecasts*, an investment newsletter, says the price-to-sales ratio can be more telling than the p-e: Sales are "difficult for companies to manipulate and thus free of accounting gimmicks." Among the companies most attractive on price-to-sales are Nucor, Super Industries, and Vishay Intertechnology. Vishay is cheap when it's measur-

LARGE-CAP STOCKS LEAD THE WAY



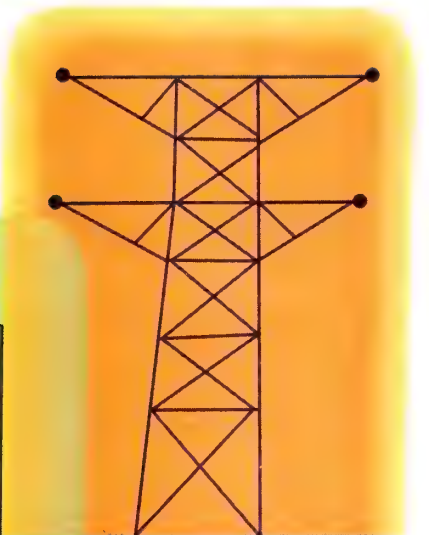
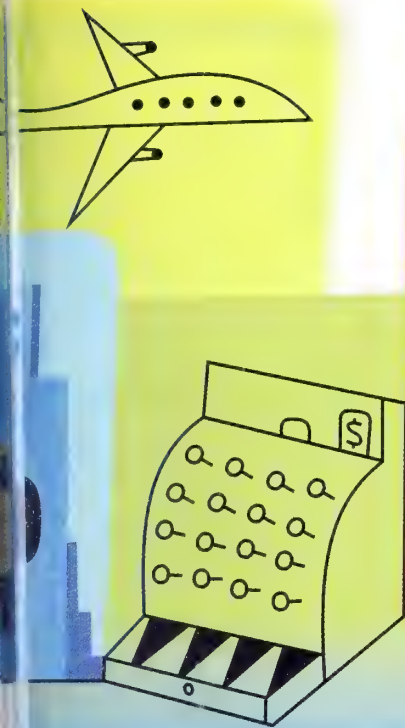
DATA: BLOOMBERG FINANCIAL MARKETS

BIG AND CHEAP

	STOCK PRICE*	P-E**
ALLTEL	40	18.5
AMOCO	41 1/2	19.7
ANHEUSER-BUSCH	46 1/8	18.7
COUNTRYWIDE CREDIT	46 1/2	14.7
GENUINE PARTS	34 1/2	16.8
MAY DEPT. STORES	64 1/8	18.8
REPUBLIC N.Y.	64 1/2	8.5
SLM HOLDINGS	39 1/8	12.6
ST. PAUL	44 1/8	15.4
TOYS 'R' US	26 1/8	15.0
UNITED TECHNOLOGIES	94 1/2	19.2

*BASED ON ESTIMATED 1998 EARNINGS

JUNE 1



high startup costs. But he has great expectations for ESG because of its management and its focus on European health care.

Unlike many other value investors, Walczak will let cash build up in his fund—now 40%—rather than compromise his standards for cheapness. The same goes for Robert L. Rodriguez of

FPA Capital Fund, who now has about 30% in cash and short-term bonds. The only stock Rodriguez has bought in the past six months is Oregon Steel Mills, a specialty manufacturer. The company, he says, just completed a major expansion program, so cash flow should swell soon. "The company's trading below where it was seven years ago," says Rodriguez. But he is looking out two to three years, when the now \$24 stock could be earning \$3 to \$4 a share.

COCKTAIL CHAT. If investing in a steel company in the eighth year of an economic expansion sounds crazy, consider Scott Black of Delphi Management, who likes homebuilding stocks. These sell at puny p-e's because most investors figure they're at the peak of their earnings cycle. But Black thinks differently, arguing that builders D. R. Horton, Lennar, and Toll Brothers are still attractive. "Mortgage rates would have to get to 9% or 9.25% before they hurt them," says Black. "And they have rising backlogs and good exposure to the California market."

Talking up a steel or oil company at a cocktail party may not win you a popularity prize. But adding them to your portfolio may win you the prize that counts—some neat gains.

By Jeffrey M. Laderman in New York

"I LOVE TO BUY A GROWTH VEHICLE THAT HAS BEEN BEATEN UP"

Judith A. Jones of Key Asset Management Inc. in Cleveland has managed the Victory Value Fund since 1993 and its predecessor trust fund ever since 1977.

ON SEARCHING FOR VALUE STOCKS:

"I look at statistics such as the price-earnings ratio, price-to-book-value, and price-to-cash flow—both today and compared with the 10-year history. I also look at the traditional dividend discount models. There's no one measure you can hang your hat on all the time."

ON ENERGY COMPANIES:

"Energy stocks are attractive because oil prices are low. You've had weather-related problems and problems with overproduction, but those don't tend to last. Energy stocks are also defensive. They don't get hit as hard when the market goes down. In the recent sell-off, they did their job."

HOW SHE VIEWS FINANCIALS:

"We've done very well with the banks, but I'm a little concerned now. There could be some margin erosion from bad loans to Asia. Per-



JUDITH A. JONES • Key Asset Management

haps that's why insurance-company stocks are holding up better now."

ON OUT-OF-FAVOR COMPANIES:

"I love to buy a growth vehicle that has been beaten up. That's why I bought Motorola Inc. The company has great technical skills, market penetration, and name recognition. It's a lot like IBM was a few years ago."

s p-e of 14.4, but it's cheaper still, Moroney, in light of its price-to-ratio of just 1.3.

There's no one valuation measure to your hat on all the time," says s. With each stock or sector, participants will weigh more heavily others. Oil companies, for example, take heavy depletion allowances, which depress earnings. So they never rock-bottom p-e's. But Jones says companies are bargains because they sell is cheap—and that won't or long. "I'd rather buy an oil company when oil is \$14 per barrel than it's \$21," she says. Among her enholdings are USX-Marathon in the stic sphere and Chevron, Mobil, Texaco among the international companies.

CORRECTING. Another sector atting value buyers these days is innce. Bernstein's list includes ConSt. Paul, and Transamerica, and investors say that, given the success of bank stocks in this era of conition, insurance companies are sure low. And some investors say the est of the cheap are the reinsurwhere insurance companies repair off some of their risks: ESG Re, al Re, and Renaissancere to name Like oil, they're all cheap beof overcapacity and falling rates, hose conditions are usually selfetting. Edwin Walczak, portfolio ger at Vontobel U.S. Value Fund, ally likes Bermuda-based ESG Re, ent startup. Walczak says the at 21, is depressed because of

CONSOLIDATIONS

How to Be in the Right Spot To Catch a Merger Wave

Invest in industries where the underlying economics is driving widespread deals

BankAmerica and NationsBank agree to merge, and both stocks leap. Ameritech jumps in value after SBC Communications comes calling. Ditto Humana with United Healthcare's bid. Tyco International wants to take over U.S. Surgical, and shares in USS surge by nearly half again their value just last February.

Seeing these recent deals and others, who wouldn't wonder about how to get in on the action? There's the dumb way and the smart way. What you shouldn't do is invest randomly on tips from friends and brokers, which professional investors say are more often wrong than right. "Like trying to catch lightning in a bottle," says chief equity strategist Stuart T. Freeman of A.G. Edwards & Sons. The smarter way to

play takeovers comes with no guarantees—but can improve your odds of success while lowering your risks: Invest in industries where the underlying economics is driving consolidation.

PINPOINTING. How do you lower your risk? Buy companies that have suffered temporary setbacks but that still boast sound prospects. Either you'll profit when your pick gets taken over, or it may come out a solid survivor as its industry coalesces. Brian C. Rogers, manager of \$15.5 billion at T. Rowe Price Associates, recently saw two of the stocks he bought for T. Rowe Price Value Fund—Waste Management and U.S. Surgical—targeted by acquirers. The bids sent their shares soaring far above his purchase price. He bought neither thinking takeover, but "to the

extent that you invest in beaten-down companies where the problems are relatively short term, it's that kind of company that might attract a merger.

To help pinpoint consolidating industries, we turned to Houlihan Lokey Howard & Zukin, a Los Angeles investment bank whose Mergerstat database tracks deals dating back 35 years. Since Jan. 1, some \$550 billion in mergers have been unveiled, more than twice last year's pace. Houlihan Lokey Managing Director Scott Adelson sees communications, health care, utilities, and financial services as the four areas most prone to consolidation. In such industries, he notes

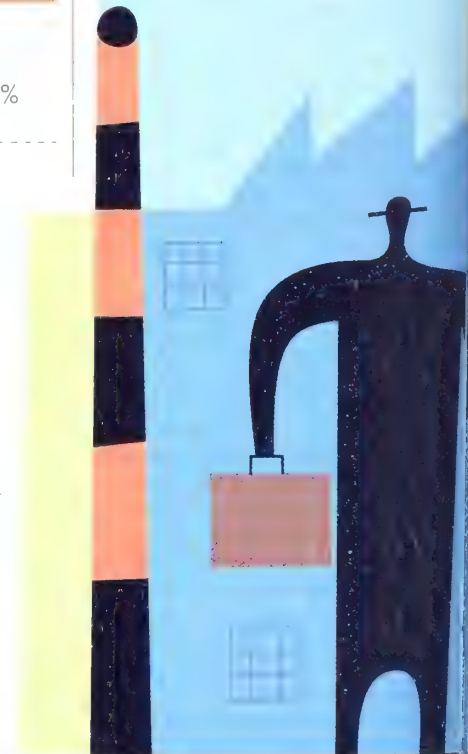
CONSOLIDATION PLAYS

COMPANY NAME	PRICE*	P-E**	COMMENT
FINANCIAL SERVICES			
EATON VANCE	\$44 $\frac{1}{2}$	18.1	Assets under management grew 42% in last year
IPC HOLDINGS	29 $\frac{1}{2}$	8.2	Bermuda reinsurer with no debt; George Soros a big holder
COMMUNICATIONS			
ALIANTE COMMUNICATIONS	23 $\frac{1}{2}$	15.1	Diversified telecom company; strong cash flow
HEFTTEL BROADCASTING	36 $\frac{1}{2}$	83.9	Spanish-language radio-station operator
HEALTH CARE			
EXPRESS SCRIPTS	75 $\frac{1}{2}$	29.4	Pharmacy benefit manager took over Columbia/HCA unit
NOVACARE	10 $\frac{1}{2}$	13.8	Medical-rehab employee benefits provider
UTILITIES			
ROCHESTER GAS & ELECTRIC	31 $\frac{1}{2}$	13.4	Deregulation getting under way in New York
UNITED ILLUMINATING	48 $\frac{1}{2}$	13.9	New CEO bent on embracing competition

*June 1

**Based on estimated 1998 earnings

DATA: HOULIHAN LOKEY HOWARD & ZUKIN, MORNINGSTAR, BUSINESS WEEK, BLOOMBERG FINANCIAL MARKETS



regulation is releasing a pent-up
to merge.

aving isolated four industries ripe
consolidation, we combed through
Morningstar StockTools database
500 public companies to locate
e with solid fundamentals and
prices that have trailed the mar-
Because they tend to be at the
er of merger activity, we focused
midsize companies with market val-
of \$500 million to \$2 billion. Then
eroed in on those that generate
of cash—an apple of any acquirer's
For financial companies, we paid
attention to return on assets, a
indicator. We eliminated captive
such as John Nuveen & Co., a
cipal bond dealer dominated by
aul Cos.

om each of the four industries, we
ed two companies (table) that ap-
attractive—future merger or not.
g financials, Eaton Vance stood
or steady growth and wide profit
ins. In the fiscal half-year ended
30, it netted \$22.3 million, up 15%
the previous year, on revenues of
3 million. IPC Holdings Ltd., a
uda reinsurer with close ties to
ican International Group, enjoyed
urn on assets last year of nearly
according to Morningstar Inc.,
g it near the top of its class in
ability. Investment vehicles con-

trolled by George Soros recently dis-
closed an 8.15% stake in the company.

Our screen of communications com-
panies turned up two different plays.
Based in Lincoln, Neb., Aliant Com-
munications has expanded cellular-
phone and local landline operations, but
not at the expense of profits. Last year,
on \$286 million in revenues, the com-
pany netted \$39.7 million and generat-
ed cash flow of \$78 million. In another
branch of the communications business,
Heftel Broadcasting is growing rapidly
in its Spanish-language radio-station
niche. Based in Dallas, Heftel is ex-
panding its stable of 36 stations,
through two more in San Diego.

NEW RULES. Like Heftel, Express
Scripts Inc., a St. Louis pharmacy ben-
efit-management company, is off its re-
cent high. But it's a stock for growth
investors, trading at nearly 30 times
estimated 1998 earnings of \$2.57 a
share. It paid \$445 million last April to
pick up a rival cast aside by the in-
dustry's crippled giant, Columbia/HCA
Healthcare Corp. NovaCare Inc.
shares, by contrast, have taken a beat-
ing as investors worry about how
providers of health care will cope with
new Medicare budget limits. NovaCare
claims it's well ahead in adjusting its
contracts to the new rules. But at \$11
a share, NovaCare is trading at just 12
times the Street's consensus earnings
estimate for the fiscal year ending
June, 1999.

Also attractive are two utilities—
Rochester Gas & Electric (RG&E) and
United Illuminating Co. Both are
entering a period of deregula-
tion, and Houlihan Lokey's
Adelson thinks this will fos-
ter consolidation. Out of lit-
tle more than \$1 billion in
revenues, RG&E last year
generated a prodigious
\$235 million in cash flow,
according to Morningstar.
New Haven's United Il-
luminating saw cash flow
of \$168 million on \$710
million in revenues. For-
mer Westinghouse Elec-
tric Corp. executive
Nathaniel Woodson just
took charge as CEO with
a pledge to focus on that
goal so beloved of in-
vestors, shareholder value.

Is there some way of
knowing for sure which of
these will wind up in a merg-
er? Unfortunately, no. But
with stocks like these, you're
likely to have your downside
well covered while looking for
the big upside.

By Robert Barker



SCOTT J. ADELSON
Managing Director
Houlihan Lokey Howard & Zukin

"IT'S LIKE SHOOTING FISH IN A BARREL"

As the guy in charge of the comprehensive Mergerstat database, Scott J. Adelson, managing director of Los Angeles investment bank Houlihan Lokey Howard & Zukin, gets a closer-than-usual view of trends in industry consolidation. Here's what he sees now:

ON THE CURRENT WAVE OF MERGERS "The value of deals is off the charts. We will blow through last year's deal volume probably by the end of June. You've never had the kind of market you have today."

IS THE MERGER MARKET OVERHEATED?
"Price-earnings multiples that are being paid are clearly rising, but not across the board."

WILL THE DAIMLER-CHRYSLER DEAL MEAN MORE AUTO MERGERS? "The number of players in that industry is already pretty small, so no. . . . The megadeals get the preponderance of the press coverage but aren't necessarily a trend."

WHERE TO LOOK FOR TAKEOVER PLAYS
"Financial services—banking, insurance, brokerages—account for one-third of all merger and acquisition activity. It's like shooting fish in a barrel."

WHY FOCUS ON MID-CAPS? "Middle-size companies are at a critical point. They need to decide if they will grow by acquisitions or, if not, are they going to be able to compete?"

THE NEXT HOT INDUSTRY FOR DEALS
"Utilities. It's the same fact set [as in telecommunications], but it has not taken off at the same rate. That eventually will change."



TECHNOLOGY STOCKS

Is the Bull Just Taking a Breather?

Forget this lull. Analysts see plenty of Internet-powered growth ahead

Technology stocks are in a summer funk. The Pacific Stock Exchange Tech Index dropped 10.8% between May 4 and June 1, taking back almost half of the industry's 24% gain prior to the sell-off.

For good reason. An onslaught of low-priced personal computers and an oversupply of semiconductors are slashing profits across the industry. The Asian crisis is also taking a heavier toll on tech profits than many expected, especially at companies that have big contracts in the region. Laments Anthony Rizzo, manager of the Pimco Innovation Fund: "This is one of the toughest periods for tech investing I've seen in a while."

Is this the end of the four-year bull market in technology stocks? Don't bet on it, say many professional technology investors. Most of the pros remain generally bullish about the second half of the year. And although they're worried about sky-high prices on some Internet stocks, they're buying beaten-down

personal-computer and semiconductor companies, along with software and communications equipment companies that are poised for rapid growth.

Indeed, analysts are predicting nothing less than a gargantuan rebound in technology companies' profits in 1999: First Call Corp.'s consensus estimate forecasts a 31% rise. Why? Enormous growth in the Internet, and a hoped-for rebound in PC industry profits. If the analysts are right, the high-tech industry will grow faster than all major U.S. industries.

"POP BACK UP." Of course, tech analysts have been known for their wildly optimistic forecasts of future technology profits. That's one reason the market recently headed south. In January, analysts' consensus estimate for technology earnings in 1998 called for a 22% gain, according to First Call. The

latest estimate, however, predicts a more humble 6% gain in tech earnings in 1998.

With so much disappointment for tech stocks to absorb, they may find it tough going this summer. But most of the pros have their eyes focused on 1999. By then, they believe, the worst



of the industry's problems will be gone.

The bulls argue that PC industry profits will recover later this year as older models sell off and as consumers begin buying faster, high-margin PCs. Consumers will also step up their spending on a wide range of new high-performance products—such as cable modems and digital cameras—that will improve Internet connections and make the PC more versatile in the home and as a tool for business.

This development could reignite powerful growth, say the bulls.

"Right now, the PC industry is like a balloon being shoved in a bucket of water," argues Ron Elijah, manager of Robertson Stephens Information Age fund.

"Pretty soon, it's going to pop back up fast," he says.

Even if the tech industry doesn't recover quite so quickly or smoothly, most pros expect tech stocks to shake

off their current woes in the second half. The U.S. government's antitrust threats against Microsoft Corp. and Intel Corp. have had a chilling effect on tech stocks. But most pros discount the potential long-term effects on either company or the industry. The reason: The suits won't much alter powerful product cycles, driven by new Intel processors and Microsoft operating systems, coming over the next 12 months. And since product cycles drive tech stocks, investors are finding companies unjustly punished by the recent sell-off, as well as companies that are sidestepping the industry's malaise.

Take Compaq Computer Corp.,

which is among the hardest hit by the PC downturn. It's the nation's largest PC maker, barely profitable, having built many PCs that are now being sold at cut-rate prices.

Though Compaq is down one-third from its 52-week high of \$39, it's trading at a hefty multiple of 33 times expected 1998 earnings. Rizzo thinks Compaq is poised for a fourth-quarter profit rebound. He plans to load up on Compaq when he sees lower inventories and more robust orders for new chips.

A recovery at Compaq will benefit Intel. And Intel is one of Elijah's favorites. His argument: "People are confusing today's market problems with

generational change in technology." He's convinced Intel will succeed in converting customers to its new Pentium II processors well before competitors make inroads with their new chips. As the transition will allow Intel to overcome

profit pressure it's been under this year from booming sales of slower, low-margin Pentium MMX chips. He doubts an antitrust suit will alter Intel's dominance. At \$68 a share on June

COLD WIND

The U.S. government's antitrust threats against Microsoft and Intel have had a chilling effect on tech stocks. But most pros fear no lasting harm

GOOD THINGS COME IN SMALL COMPANIES.



CAPITAL DEVELOPMENT FUND When opportunity knocks, it's important to listen.

Small caps are at their most attractive valuations relative to large caps since the latest bull

AIM Capital Development Fund

1 Year

60.95%

*52.11%

Inception (6-17-96)

32.85%

*28.72%

Includes maximum 5.50% sales charge. Average Annual Total Return as of 3-31-98

market began. It's time to consider taking advantage of the strong growth opportunities in the small cap market.

The AIM Capital Development Fund is an intelligent way to invest in small

Our disciplined strategy employs four principles: choose undervalued companies with strong growth potential, diversify holdings with numerous stocks, buy and hold on to the best performers, and maximize tax efficiency. These four elements make this the "thinking man's small cap fund." And while investing in small companies may involve greater risk than more established companies, it also offers greater potential reward.

Small caps are knocking. It's time to answer.

Invest with **DISCIPLINE**sm

www.aimfunds.com



MUTUAL FUNDS

Performance cannot guarantee comparable future results.

YOUR FINANCIAL CONSULTANT for more complete information about the Fund, including charges and expenses, a Fund prospectus and Investors Performance figures are historical and reflect reinvested distributions and changes in net-asset value for Class A shares. Investment return and principal value will vary so you may have a gain or loss when you sell shares. Please read the prospectus carefully before you invest or send money. AIM and design is a registered trademark of AIM Investment Group Inc. AIM Distributors, Inc. 1998

TECHNOLOGY STOCKS

Kevin Landis co-manages \$225 million in four technology funds run by Firsthand Funds Inc., in San Jose, Calif. His Technology Value Fund is up 4.6% through June 2. It had a three-year average annual growth of 43% through Apr. 30.

ON WHETHER TECH STOCKS WILL REBOUND

"Tech stocks should outperform the market this year. Companies with profits driven by the Internet will continue to do well. In semiconductors, it depends where you look. I'm optimistic about the capital-equipment side, but I'm concerned that people expect a bounce-back but won't have the patience. It will come in Q4—or in Q1 of 1999."

ON WHEN SEMICONDUCTORS WILL RECOVER

"The oversupply of DRAMs [memory chips] is

real. But Intel will surprise people by how competitive they can be at lowering prices."

WILL ANTITRUST SUITS HURT MICROSOFT AND INTEL?

"I'm not worried about antitrust suits. Both companies are going to be leaders in their industry for a long time."

HIS FAVORITE SECTORS

"The story in the second half is connectivity and the Internet. Anyone who builds bandwidth has a tremendous opportunity. Some companies are already richly priced, such as Advanced Fiber and Tellabs. Some Internet stocks are also pricey—and trade on promise, not skepticism. It's safer not to invest in [those] stocks. I prefer companies that make chips to expand bandwidth, such as PMC-Sierra and Vitesse."



KEVIN LANDIS • Firsthand Funds Inc.

"COMPANIES WITH PROFITS DRIVEN BY THE INTERNET WILL CONTINUE TO DO WELL"

he thinks Intel is a bargain. Intel's stock is trading at 19 times forward 12-month earnings, well below its peak.

Many software stocks have avoided the PC industry malaise. Irfan Ali, a software analyst for Massachusetts Financial Services, likes Computer Associates International, BMC Software, and Compuware. Shares in all three have risen sharply this year, but Ali thinks there is room to run. They all have stable pricing, high profit margins, high growth rates, and low price-earnings multiples compared with many other fast-growing tech stocks.

Parametric, which makes industrial design software, and Cadence Design Systems Inc., which produces chip design software, are two software picks of Marc Klee, manager of the John Hancock Global Technology Fund. Both companies have unusually stable growth prospects compared with many technology companies, Klee says, and may see 30% profit growth in 1999. And they're trading at price-earnings multiples in the low 20s.

Some pros see the red-hot Internet boom continuing. Kevin Landis, manager of four technology funds owned by Firsthand Funds Inc., likes

PMC-Sierra Inc., which makes semiconductors to expand bandwidth on the Internet. He says the company has a strong order backlog and will likely beat analysts' 1999 earnings estimate of \$1.29 a share. At a recent price of less than \$40, "it's a steal," Landis says.

The top technology-fund managers this year have trimmed their holdings in some frothy Internet names, including Amazon.com, N2K, and cdNow. Paul T. Cook and Carl Wilk, who manage the Munder Capital Management NetNet fund, also aren't buying

more Yahoo! Inc., which reached a market value of \$1 billion in April despite only \$67 million in 1997 sales.

Yet Cook and Wilk still like Internet telephone stocks. Intertel Inc. and Comdial Corp. make boards that plug into PCs that allow users to make telephone calls through the Internet. For example, at a recent price of \$11, Comdial is trading at a below-market multiple of times 1998 earnings but should grow profits 20% this year, Wilk says. Cook is also betting on Intuit, which is expanding into Internet-based financial services, including mortgages, auto loans, and insurance.

At a p-e of 41, Intuit is pricey for some. But if, like Cook and others, you believe that high-tech stocks are simply taking a summer breather before returning to the bullish ways, now is a good time to search out bargains.

By Geoffrey Smith
in Boston

TOP TECH PICKS

NAME	STOCK PRICE*	P-E**	COMMENT
COMDIAL	11 $\frac{1}{2}$	13	A below-market multiple for a company in the potentially hot Internet phone market
COMPAQ	26 $\frac{1}{2}$	39	Look for a fourth-quarter earnings surprise once the inventories are trimmed
COMPUTER ASSOCIATES	51	22	A favorable p-e on this software powerhouse
COMPUWARE	44 $\frac{1}{2}$	32	Steady earnings growth and a low price relative to prospects
ELECTRONIC ARTS	42 $\frac{1}{2}$	28	Faster PCs and video-game machines should drive healthy game sales
INTEL	68	22	Bumps lie ahead, but two product-cycles are coming: a switch to faster Pentium II and Merced processors
PARAMETRIC	30 $\frac{1}{2}$	32	1998 profits should grow 30% at this software-design firm
PMC-SIERRA	37 $\frac{1}{2}$	35	Specialty chipmaker stands to gain from Internet growth

*June 1 **Based on 1998 estimated earnings

DATA: B.W. BLOOMBERG FINANCIAL MARKETS



(use your head)



Need an assist worldwide? Get an **AT&T Direct[®] Service** wallet guide.

It's a list of access numbers you need to call home fast and clear

from around the world, using an AT&T Calling Card or credit card. It's a real no-brainer.

Dial 1 888 259-3505 for your free guide, or visit our Web site

at **www.att.com/traveler**

It's all within your reach



AT&T

BIOTECH STOCKS

Warning: May Cause Dizziness

The key to biotech investing is knowing when to get in and out

Next to Hollywood, biotech is the industry most apt to confuse fantasy with reality. But in the past year, reality has held sway: Biotech stocks are down 2%, while the Standard & Poor's 500-stock index is up almost 30%.

So how does one find value in a sector that's risky and—for now—underperforming? One useful approach is to study where a drug is in the development cycle. Many investors like to get in on the ground floor, when a drug is still in trials. But they must tread carefully: Once a drug gets Food & Drug Administration approval, the stock usually declines instead of running up. On May 26, for instance, Organogenesis Inc. got clearance for its Apligraf, a human-skin substitute. The stock, which hit 37 in April, is now at 24½. Organogenesis is not alone. This is a pattern in biotech, says Matthew M. Geller, an analyst at CIBC Oppenheimer Corp. in New York: "Investors start to sell because they're nervous that drug sales won't meet projections."

GYRATIONS. A company that has faced the same prospect is Protein Design Labs Inc., which recently received approval for a kidney-transplant drug that prevents rejection of the new kidney. The drug can also be used to treat psoriasis and juvenile diabetes. Dick Bank, portfolio manager at First Tier Partners, a hedge fund in Los Angeles, says that, despite its large potential, the stock is down 50% from its high of 51½ in November. But Bank thinks the company, with its pipeline of upcoming drugs, will hit 45 by yearend.

Another stock that got hit after FDA-panel approval for its new treatment for Crohn's disease is Centocor, a \$2.5

billion-market-cap company. The stock fell about 15%, to 36, last week after the news. But Arnold Snider of Deerfield Management in New York thinks Avakine will make a lot of money in the next few years. He believes the stock could hit 50 in 12 months.



are below the \$200 million-market-cap level."

Lambert likes NPS Pharmaceuticals Inc. Its most valuable asset, he says, is a partnership with Amgen Inc., the industry's largest player. NPS is developing a drug for treating hyperparathyroidism, which afflicts women after menopause. The drug can also be used in renal dialysis. At 7½, NPS stock is trading near 52-week low. He thinks it could more than double in the next year.

"RADAR SCREEN." Another early-stage company is Synaptic, a leader in pursuing drugs for obesity, depression, and migraine headaches, using a new technology that helps bind molecules together. "It's off everyone's radar screen because the drugs are still in early-stage development. The company is still small with a market cap of \$155 million," says Bank. The stock is at 14½, but Bank thinks it will reach 28 by yearend.

Late-stage investing can also be fruitful. "What we typically look for is how to eliminate some of the risk," says Bank. That means he seeks companies

SOME SMART BUYS

	STOCK PRICE*	52-WEEK HIGH	
ADVANCED MAGNETICS	10½	14½	Developing a new cancer drug—with one drug already commercially available
CENTOCOR	37½	53½	Its new Crohn's disease drug is slated to do well
NPS PHARMACEUTICAL	7½	11	A postmenopausal drug is being developed; Company has a valuable partnership with Amgen
PROTEIN DESIGN LABS	25½	51½	A strong pipeline is behind its new kidney drug
SYNAPTIC	14½	17½	Obesity and migraine drugs being developed

*NYSE

DATA: BUSINESS WEEK

If you have an aversion to gyrations, you'll be more comfortable playing in the early or late part of the development cycle. Mark Lambert of Biotechnology Value Fund in San Francisco looks for companies still undiscovered by Wall Street that have enough cash to last a long while. Says Lambert: "We like to find companies in their early stages, with low liquidity, low market cap, and not necessarily good news flow. Currently, the best opportunities I've ever seen in biotech

that are in advanced clinical trials, have marketing agreements with big companies such as Merck & Co. or Pfizer Inc. and have multiple products in development. He also wants to make sure clinical benefit of a drug is so great that managed-care providers have no choice but to reimburse patients who use it.

In short: Take your pick on what stage of the development cycle to pursue. And remember to distinguish fantasy from reality.

By Debra Sparks in New York

Things we've noticed about Americans:

There's a safe way of doing everything.

HUGO, 41 years as
human cannonball.
Still going strong.

CASE IN POINT:

The secure
Chevy Malibu.



Next Generation driver and front passenger air bags. • Daytime Running Lamps.

Rugged steel safety cage. • Side-door beams. • Passlock® theft-deterrent system.

Crush zones front and rear. • Child security rear door locks. • Anti-lock brakes.

• 1 800 950 2438 • www.chevrolet.com/malibu • \$16,195*

Malibu.

The Car You Knew America Could Build.  Genuine Chevrolet

*Always use safety belts and proper child restraints, even with air bags. Children are safer when properly secured in a rear seat. †1998 MSRP includes dealer prep and destination charge. Tax, license and optional equipment additional. Malibu is a registered trademark and Chevy is a trademark of the GM Corp. ©1997 GM Corp. Buckle up, America! ■

SHORT-SELLING

How to Short a Bull Market—and Live

Despite frequent squeezes, savvy players are profiting from overvalued stocks

With the stock market up 13% so far this year, short-selling ought to be one of the riskiest investment strategies around. And guess what? It is. Shorts complain that rampant bullishness is pushing up dubious stocks more than ever. They beef that some institutions make a point of buying heavily shorted stocks to force shorts to buy back the shares, driving prices up further. Such "short squeezes" are becoming a fact of life for short-sellers.

But bull market and squeezes notwithstanding, short-selling can be worth the risk. One need only check out stocks named by short-sellers when *BUSINESS WEEK* last examined the practice (BW—Dec. 29). Nine of their 14 picks have declined, and among them were some of the biggest losers of recent months—including BioTime Inc., down 55% this year, Multimedia Games, which has crumbled 73%, and Computer Learning Centers, down 44%. Shorts are among the savviest researchers on Wall Street and were shorting Computer Learning long before its accounting practices were publicly questioned. (The company has denied wrongdoing.)



Short-selling requires an eye for what can go wrong—the opposite of the upbeat mentality that prevails on Wall Street. Morton Cohen, who runs Cleveland's Clarion Partners money-management group, looks out for overvalued stocks, stocks that are victims of broad, secular trends, scams, or poorly managed companies. These run the gamut of large, highly liquid stocks and small caps, the reputable and the sleazy. Among the stocks that he feels are losing value because of secular reasons are two venerable Wall Street names: instant-photo pioneer Polaroid Corp. and Singer Co., the sewing machine giant. Both, he feels, have long since seen their best days—with Polaroid under competition from digital cameras and Singer, in his view, overly dependent on sales to underdeveloped countries.

High-flying small-cap companies frequently find their way onto short-sellers' hit lists. One outspoken small-stock skeptic is Manuel Asensio, who runs the Asensio & Co. money-man-

agement firm. Today his top picks include Texas-based

Zonagen Inc., whose stock has gained significant following on Wall Street because of its Vasomax anti-impotence drug, which the company feels must compete with Pfizer's Viagra. Asensio shorted the stock last year, and it declined but then recovered. He remained short, despite its recent Viagra-fueled run-up—the stock is up some 88% over the past year. Asensio stresses concerns about the drug's safety and effectiveness held by critics, including shareholders who have sued the company claiming securities-law violations. The company vigorously denies the charges.

SHORTING THE NET. Another short-seller who specializes in microcap stocks, has lately been watching—and shorting—another stock that is a favorite of callers, Gilman & Ciochia. The company runs tax-preparation centers, and it has been a massive gainer, climbing 70% over the past year and doubling the year alone. Barely a year ago, the stock was trading at little more than a buck—and this short is wagering that sanity will soon prevail.

Short-sellers are keeping an eye peeled for companies like Gilman & Zonagen that they believe are dram-

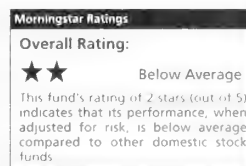
SHORT TARGETS

COMPANY	STOCK PRICE*	ONE-YEAR TOTAL RETURN
GILMAN & CIOCHIA Tax-preparation chain	17 1/2	709%
SINGER Sewing machines	8	-55
SLH Energy and real estate	23 1/2	159
SONUS PHARMACEUTICALS Biotech-device manufacturer	13	-51
THINK NEW IDEAS Consulting company	18 1/2	402
ZONAGEN Pharmaceutical company	36	88

HOW DO YOU *decide* WHETHER TO BUY, SELL OR HOLD A *mutual fund* IN YOUR PORTFOLIO?

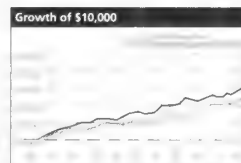
WITH OUR NEW MUTUAL FUND REPORT CARDS™, YOU CAN FOLLOW THESE
SIMPLE STEPS TO BEGIN TO EVALUATE YOUR MUTUAL FUNDS.

1. CHECK OUT THE MORNINGSTAR RATING
MORNINGSTAR RATES FUNDS ON A SCALE OF
ONE TO FIVE STARS. HOW DO YOUR FUNDS
STACK UP?



The number of stars a fund receives is one way to evaluate its risk-adjusted performance.

2. EXAMINE THE PERFORMANCE
HOW DO YOUR FUNDS COMPARE WITH
BENCHMARKS LIKE THE S&P 500 AND THE
RUSSELL 2000 AND THE CATEGORY AVERAGE?



You'll find out how the historical performance of your fund compares against relevant benchmarks.

3. UNDERSTAND YOUR ALTERNATIVES
IF ONE OR MORE OF YOUR FUNDS ARE
LAGGING THE AVERAGE RETURNS OF THE
FUNDS IN THEIR CATEGORY, IT MAY BE
TIME TO REBALANCE YOUR PORTFOLIO.

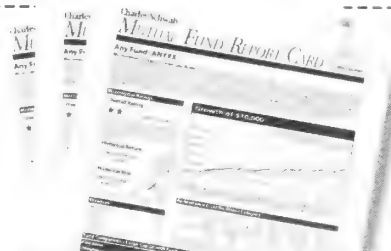
Fund Name (Inception)	Morningstar Ratings
Any Fund A	★★
Any Fund B	★★
Funds from the Mutual Fund Select List	★★★★
Any Fund C	★★★★

If appropriate, we'll provide the names of alternative funds for your consideration.

SCHWAB'S FREE MUTUAL FUND REPORT CARDS MAKE EVALUATING YOUR PORTFOLIO EASY.

Mutual Fund Report Cards provide an easy-to-understand analysis of your mutual funds in a concise, single-page format. They're available on over 7,700 funds from families like Fidelity, Merrill Lynch, Vanguard and more. Why not call for three free Report Cards today, or stop by a local Schwab branch and visit with a representative.

1-800-790-3808



Prospectuses containing more complete information including management fees, charges and expenses are available from Schwab. Please read them carefully before investing. Past performance is no indication of future results. ©1998 Charles Schwab & Co., Inc. All rights reserved. Member SIPC/NYSE. (0698-1796)

ically overvalued. Short candidates are in just about any industry—though biotech and energy companies are traditional short-seller favorites. In recent years, Internet stocks have grown popular among shorts. As the *Overpriced Stock Service* newsletter argued in one recent issue, "Short More Internet." Cohen is shorting Source Media Inc., which has gained a considerable investor following for its various advertising and cable-TV products. Another fast-growing stock to gain short-seller attention is SLH Corp., whose shares have soared some 159% over the past year, though they have fallen back in 1998. The company's main business is its proprietary "Syntroleum process," which converts natural gas into liquid fuel products. Shorts maintain that the company's \$230 million market cap is far too high.

Other high-flying stocks that are beginning to attract increased interest from short-sellers include Radica Games Ltd., which makes electronic devices for playing poker and other games. Another such stock is Turbodyne Technologies Inc. a former Vancouver Stock Exchange issue that has more than doubled in price so far this year. Turbodyne makes pollution-control machinery. One publicly held consulting company, which is trying to get a foothold on the Internet, is New York-based THINK New Ideas, a former penny stock that has climbed fivefold over the past year. One experienced short-seller thinks that the market will soon have a new idea about this stock—that it is going to tumble.

BURN VICTIMS. Overheated performance, however, is by no means the only indication of a stock that is worth selling short. Indeed, many shorts were burned last year when they shorted Quigley Corp. after a dramatic runup, only to see its shares continue to climb. Sometimes shorts bet on stock-price losers, running counter to the tendency of some investors to load up on stocks that are taking a beating, in the view that they are "cheap."

Such stocks are not always bargains. Cohen, for example, is shorting the free-falling shares of SONUS Pharmaceuticals, which makes ultrasound contrast agents and drug-delivery systems. The company's shares are down 60% so far this year, and Cohen is wagering that the stock's fall is far from over. The Street, he notes, loves the stock. Too much. "It's not too hard to find shorts in this market," says Cohen. The trick is to get other investors to agree.

By Gary Weiss in New York

Finding Shelter—and A Bit of Comfort

There's reliable income for investors with long horizon



Martin Cohen, of Cohen & Steers Realty Shares, has good reason to feel depressed. "It's a tough environment when your stocks go down every day," says the portfolio manager. Cohen & Steers's \$3 billion fund, which had total returns of 38.5% in 1996 and 21.2% in 1997, is down more than 6% in 1998. Meanwhile, the Standard & Poor's 500-stock index is up 12.4%. Says Cohen: "I think people look at real estate investment trusts [REITs] being down and the broad market up more than 12% and say, 'I'm in the wrong asset.'"

Can you blame them? The stocks have been battered by mounting concerns that returns will fall as the industry enters a more mature, slower

growth phase and on fears that a large pool of available capital slosh around the industry will lead to overbuilding. Worries about changes in taxation of REITs are also giving investors jitters. According to AMG Diversified Services, the market performance of real estate mutual funds has been negative for the past eight weeks and assets have shrunk to about \$11.7 billion from \$12.5 billion earlier in 1998.

Unlike REITs, homebuilders have been doing well, topping even the broad market with a 17.4% year-to-date gain. But analysts think valuations are more reasonable—and more appreciation may be in the cards.

In the REIT market, many worries may be overdone. Indeed, investors concerned about the high level of broad stock market may find REITs to be solid defensive holdings. REITs

a reliable income stream since must pay 95% of what would be taxable profits to shareholders in order to retain their tax-advantaged status. "With REIT yields 120 basis points better than the five-year Treasury bond and companies expected to pay dividends faster, people are going to rediscover the yield story at this point this year," says Louis W. Fink of Prudential Securities.

FLING IN. As momentum players in REITs, investors with longer-term horizons can find good values. "We've seen REIT multiples back over 10 times, and they're at their lowest levels since the Gulf War," says Cydney C. Dell, of New York-based investment manager European Investors Inc. "Given that their earnings-growth potential is five times that of the 1999 estimates for the S&P 500 and that their price, based on 1999 projections, is only about 40% of the S&P's—I don't see current REIT valuations] at all."

One of the highest-flying REITs of the past few years may be far better now. That includes Starwood Hotel & Resorts Worldwide Inc. and Cent Real Estate Equities Co., says Dell. At a price around 38, Vornado Realty Trust appeals to Dell. It has a big buyer of properties in recent years, but as the real estate market revived, competition for properties driven up the prices of deals and made them less economical. "But," says Dell, "To date, Vornado has bought properties that have a natural upside in the market or that have been totally undervalued in their prior history."

There's another element to the Vornado story and to the appeal of real estate stocks in general that may play out profitably: development. "Over the next few years, we will see a shift in the economy favoring an emphasis on development over acquisition," says Fitzpatrick, of Longleaf Partners

Mike Kirby is a co-founder of Green Street Advisors, which is an independent research organization based in Newport Beach, Calif. It specializes in real estate investment trusts (REITs). Founded in 1985, Green Street Advisors has 11 analysts who serve a customer base of more than 200 institutional investors.

ON THE APPEAL OF REITs

REITs have been such woeful underperformers this year that any [investors] with any contrarian blood in them at all have to think they might be interesting.

STRATEGIES TO PURSUE

More than ever, real estate investing is a stock-picking game. REITs that just buy properties without having a plan in mind for

adding to its value are undertaking a strategy that doesn't make sense in a fully priced real estate market that's currently awash with capital. Growth for the sake of gaining efficiencies can make sense if you have top-notch management able to take advantage of efficiencies. Sam Zell's Equity Office Properties Trust and Equity Residential Properties Trust are the best examples of that. REITs with plans for developing properties make a lot of sense.



MIKE KIRBY
Green Street Advisors

FAVORED STOCKS

Bay Apartment Communities and Security Capital Pacific Trust both have terrific development stories in California. A development story in the office sector is CarrAmerica Realty Corp. In retail, Taubman Centers is very aggressive and has a very healthy development pipeline queued up.

"REITS HAVE BEEN SUCH WOEFUL UNDERPERFORMERS THIS YEAR"

Realty Fund. Vornado owns a lot of property around Manhattan's Pennsylvania Station, a neighborhood expected to become a vibrant retail environment in a few years.

Ferreting out real estate stocks with good development stories isn't easy, says Fitzpatrick. "A lot of what we buy doesn't show up in the immediate numbers," he says, so tends to be mispriced by the market. One example: a new company, Excel Legacy, trading on the NASDAQ Bulletin Board. It was spun out of a REIT but is structured as a regular C-corporation. "It has some very attractive development sites

and opportunities across the country," says Fitzpatrick.

A far larger stock with some upside from development that Fitzpatrick likes is Host Marriott, also a C-corp. "It has land adjacent to existing properties where they can add room capacity at extremely high rates of return," he says, and has several hotel sites that it will be developing over the next few years. For a play on land, William K. Morrill, CEO of ABKB/LaSalle Securities, likes Catellus Development Co. "They should benefit from an acceleration in the growth of land prices on the West Coast that should continue for a couple of years," he says.

Sam Lieber, who runs two real estate funds for Alpine Management & Research, looks for value among homebuilders that he expects to be consolidators in their industry. Since the broad stock market's April high, the S&P 500 is down 3.5%, S&P's REIT index is down 1.8%, and homebuilders are down 9.7%. "With interest rates low, housing affordability high, and the fundamental activity in real estate strong, we think homebuilders are the cheapest sector," says Lieber.

REITs may be down, but don't count them out. Investors can expect good returns—but may have to wait longer for them. Of course, in a bull market, counseling patience is a hard sell.

By Suzanne Woolley in New York

BATTERED-DOWN-AND-BARGAINS

	INVESTMENTS	STOCK PRICE	CHANGE FROM 52-WK. HIGH
BAY APARTMENT COMMUNITIES	Northern Calif. apartments	36 ¹⁵ / ₁₆	-9.1%
CARRAMERICA REALTY CORP.	Suburban offices	27 ¹ / ₂	-16.4
HOODS PROPERTIES	Suburban office, industrial	32 ³ / ₈	-13.4
CALI REALTY CORP.	Northeast, southwest offices	36 ¹ / ₂	-15.7
SECURITY CAPITAL PAC. TRUST	Apartments in western U.S.	22 ¹ / ₂	-10.4
GREEN REALTY CORP.	Midtown Manhattan offices	22 ¹ / ₂	-19.4
UPSCALE HOTEL INVESTORS	Upscale hotels in western U.S.	14 ¹ / ₂	-21.0
SHOPPING DO REALTY TRUST	Shopping centers, industrial	38 ¹ / ₂	-23.0

DATA: BW MONEY MANAGERS SURVEY

GLOBAL



Europe Is the Bright Spot In World Markets

Falling rates and lively economies make the region look like a haven in the storm

Global equity investors are facing an awkward dilemma as summer begins. Anything that looks attractive is expensive. And anything that looks cheap is unattractive—and for good reason.

The stakes are high. Share prices in the U.S. and Europe have more than doubled since 1995. So an oversize stake in one country or sector could have dire consequences if malaise sets in. Still, most experts believe that the best markets will be outside Wall Street, despite its long record of strong growth. The Standard & Poor's 500-stock index trades currently at a lofty 21 times expected 1998 earnings, which show weak growth. In contrast, many emerging markets are selling at fire-

sale prices. But beware: If the yen plummets and Asian markets fall further, emerging markets everywhere will get a drubbing.

Despite their high valuations (table), European markets offer the best potential for further, sustainable gains. Economies of the 11 members of the European Monetary Union (EMU) are expected to grow 3% in 1998. With no inflation, interest rates are headed lower, too. So strategists recommend switching from the U.S. and Pacific Basin into Europe. "Between now and the end of 2000, European markets will show total returns of 50% to 70%," says Crédit Suisse First Boston's European strategist François Langlade-Demoyen.

Investors, the strategists say, should redeploy assets to exploit a few global themes. Restructuring, consolidation and shareholder value are old ideas in the U.S. But they are beginning to catch on elsewhere. Already, Europe is starting to reap the benefits of corporate restructuring, while recession-ridden Japan may be forced to follow suit soon.

WHO DELIVERS? Investors can also benefit from sectoral trends in global markets. Technology, health-care, and pharmaceutical stocks are trading at steep premiums after a long rise. So Banc Asset Management Director Michael Hughes suggests focusing on companies that use, rather than provide, technology. Likely candidates are deliv-

They will do business at a pace that's hard to conceive of.

With industry in constant motion and global growth at lightning speed,

They will compute and invent faster than we can imagine.

America's largest generator of electricity already
here in the world will they get the energy they need?

provides energy for millions of people worldwide.

GLOBAL

companies such as Federal Express Corp., mail-order companies, and banks, which can use the Internet to market services directly.

Of course, there are dangers. With the imminent launch of the euro and the weakening of Asian currencies, investors need to consider currency exposure more than before. The yen could drop to 155 to the dollar, from about 139 now, because of Japan's weak economy and lack of sufficient fiscal stimulus, says J. P. Morgan & Co. global currency chief Avinash Persaud. So dollar-based investors should seek mutual funds that hedge currency risk when buying into Japan. The ruble, too, is a white-knuckle ride. Unless Russia gets outside help, it may have to devalue. That would further depress the Russian stock market, which has lost 51% so far this year, and other emerging markets.

LOW RATES. Russia also highlights a less obvious trap for the unwary. After a gain of 98% in 1997, the Russian market got whacked when petroleum prices tumbled because it is dominated by oil companies such as Lukos and Tatneft whose export earnings are suffering.

South Africa, New Zealand, Canada, and Chile present similar risks, however good their domestic commodity-based economies look, warns Persaud.

But Europe is high on most stockpickers' lists because political and economic risks are low. Consider the fundamentals. Interest rates are down ahead of the euro's introduction on Jan. 1. Long-term rates for EMU members should remain around 5%, cutting the cost of capital to companies dramatically. Simultaneously, European companies have pared costs and improved the return they earn on capital, says Goldman, Sachs International Managing Director Jeffrey M. Weingarten.

The main beneficiaries of cheap capital are Italy, Ireland, Spain, and Portugal. Until recently, they all had double-digit bond yields. Having cashed in gains as the yields tumbled, local investors moved aggressively into stocks. Phenomenal returns in the past 12 months, especially in Spain and Italy,

have driven market multiples close to U.S. levels, says Jeffrey West, senior economist with London research firm IDEA. Spanish pizza delivery chain Telepizza Co., for example, soared 1,000% in local currency last year and now trades at 89 times estimated 1998 earnings.

But value investors such as Colin McLatchey of London's PanAgora Asset Management Ltd. expect further positive earnings surprises in Spain and Italy. He likes Spanish publisher Grupo Anaya, which has already driven

PAY DIRT

Europe is high on most stockpickers' lists: Companies have cut costs and improved returns, and the political and economic risks are low

bled this year. Moreover, new stock indexes are pushing investors to hunt for stocks throughout the euro zone. Goldman, Sachs & Co. analyst Isabelle Hayen is bullish on Spanish and Portuguese utilities, including high-flying Electricidade de Portugal, which is up 36% so far this year.

Faster growth will put more money in European consumers' pockets. Equity strategists at both CSFB & Goldman Sachs are extremely bullish on sectors such as retail, construction, and telecommunications. Picks include stocks such as supermarket chain Carrefour of France and Ahold of Holland, Telecom Italia, and consumer products giants Groupe Danone, Nestle, and Unilever (table).

SCARY ASIA. European restructuring is likely to boost mergers and acquisitions, share buybacks, and spin-offs, particularly in Germany and the Netherlands. The trend isn't yet fully priced into today's market, says CSFB's Langlade-Demoyen. So fund managers are eyeing deal-hungry companies such as ING Barings, the Dutch banking insurance group, as well as Dutch banks ABN Amro, and Zurich Insurance Co.

Britain, meanwhile, with a slow economy, is out of step with Europe. It's also staying out of the euro. But it still offers some buys. IDEA's West favors exporters such as British Steel that will benefit as the pound weakens, as well as Siebe, an engineering company that has pushed into Eastern Europe.

In contrast, Asia scares off all the most battle-hardened investors: venture capitalists like Bernard Horowitz, president of Boston's Polaris Capital Management, however, the market manager spells opportunity. He likes T-Mobile Access Communication, the second largest cell-phone provider in Germany.

THE GLOBAL MARKETS

WHAT LOOKS PROMISING . . .

COUNTRY	1998 PERFORMANCE*		PRICE-EARNINGS**	
	LOCAL CURRENCY	DOLLARS		
BRAZIL	-3%	-6%	14.6	Better fiscal policies, privatization, and lower rates
FRANCE	+36	+37	18.6	Good earnings prospects, reasonable prices, lower inflation
FINLAND	+44	+45	19.6	Small market, reasonably priced growth stocks, especially telecom
SPAIN	+39	+40	28.4	Economic growth, lower interest rates, and privatizations

... AND WHAT LOOKS DICEY

HONG KONG	-20	-20	12.7	More bad economic news to come, real estate sector still risky
INDONESIA	-1	-55	13.5	Cheap but high-risk. Market lacks liquidity, economy mired in recession
JAPAN	+2	-4	40.6	Poor investor confidence, troubled banking sector
RUSSIA	-51	-51	12.3	Ruble in free fall, market hurt by weak commodity prices

* Year-to-date total returns through June 2 **Based on estimated 1998 earnings

The Waterhouse Investors
Dow Jones Industrial
Average™ Index Fund
includes:

- ALLIED SIGNAL
- ALCOA
- AMERICAN EXPRESS
- AT&T
- BOEING
- CHRYSLER
- Coca-Cola
- DUKE ENERGY
- 3M
- JOHNSON & JOHNSON
- KODAK
- MCGRATH
- GENERAL ELECTRIC
- GENERAL MOTORS
- GOODYEAR
- HEWLETT-PACKARD
- IBM
- INTERNATIONAL PAPER
- JOHNSON & JOHNSON
- DONALD'S
- 3M
- MINNESOTA MINING
- MORGAN
- CLIP MORRIS
- CHARACTER & GAMBLE
- ROEBUCK
- VELEERS GROUP
- ON CARBIDE
- ED TECHNOLOGIES
- MART STORES

Introducing the
Waterhouse Investors
Dow Jones Industrial Average™ Index Fund.

Thirty blue-chip companies. One mutual fund.

Now, for the first time, you can own your share of the thirty companies that make up the Dow Jones Industrial Average™.

THE WATERHOUSE INVESTORS DOW JONES INDUSTRIAL AVERAGESM INDEX FUND

The Waterhouse Investors Dow Jones Industrial Average Index Fund is the first mutual fund of its kind—a no-load, no-transaction-fee index fund that seeks to track the total return of The Dow™ by investing primarily in The Dow 30™.

A NO-LOAD, NO-TRANSACTION-FEE MUTUAL FUND

The Waterhouse Investors Dow Jones Industrial Average Index Fund can offer you a unique combination of benefits.

- A no-load, no-transaction-fee mutual fund.
- The convenience of investing in The Dow 30 with a minimum investment of \$1,000.
- If you utilize our Free Periodic Investing Program, your monthly minimum is only \$100.
- Free dividend reinvestment to help maximize total returns.
- Low fund expenses.

AVAILABLE ONLY FROM AMERICA'S #1 DISCOUNT BROKER

This new index mutual fund is available only through Waterhouse Securities, recently voted America's #1 discount broker by



SmartMoney Magazine because in their words, Waterhouse Securities has "the best combination of price, products and services." Today we have over 1,300 Account Officers at over 125 branch offices ready to serve you, 24-hours-a-day, 7-days-a-week.

CALL NOW

Just call 1-800-987-8686 and you'll receive a free Information Kit including a prospectus on the Waterhouse Investors Dow Jones Industrial Average Index Fund.

1-800-987-8686
www.waterhouse.com

WATERHOUSE SECURITIES, INC.
Where Investors Who Expect Value Feel Right At Home

Member New York Stock Exchange • SIPC
National Headquarters • 100 Wall Street • New York, NY
Over 125 Branches Nationwide

Please read the prospectus carefully, which includes management fees and expenses and more complete information, prior to investing. Past performance is not indicative of future results. Mutual funds are neither FDIC-insured nor guaranteed by the U.S. Government and are not deposits of, or guaranteed by, any bank and are subject to market risk including loss of principal. "Dow Jones™," "Dow Jones Industrial Average™," "DJIA™," "Dow 30™" and "The Dow™" are service marks of Dow Jones & Company, Inc. and have been licensed for use for certain purposes by Waterhouse Asset Management, Inc. The Fund is not sponsored, endorsed, sold or promoted by Dow Jones, and Dow Jones makes no representation regarding the advisability of investing in such Fund. The Periodic Investing Program does not assure a profit and does not protect against a loss in declining markets. SmartMoney is a registered trademark of SmartMoney, a joint venture of the Hearst Corporation and Dow Jones & Co., Inc. *Source: Dow Jones & Company 3/31/98. The Fund's performance is subject to fees and expenses, and has reinvestment of dividends which an index does not. You cannot invest in an index. There is no assurance that the Fund will track the DJIA. The Fund's investment objective is to seek to track the total return of the DJIA before Fund expenses. Distributor: Funds Distributor, Inc.

GLOBAL

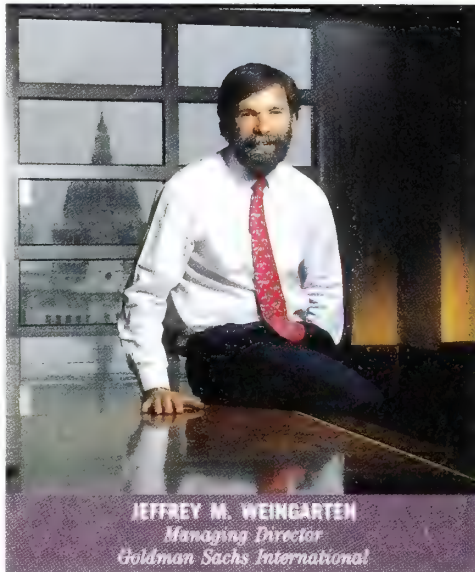
land. On a visit, he discovered it is gaining customers, mostly Thai farmers who can afford the service as their crops are priced in dollars. Indeed, Thailand may offer the best opportunities in Southeast Asia because it is implementing economic reforms. Gary L. Greenberg, managing director at Van Eck Global Asset Management (Asia) Ltd. likes life insurer Ayudha Jardine CMG Life Assurance, which has fallen by 82%. He figures the low price and the company's local franchise make it a strong buy.

Despite troubled banks, corrupt politicians, and a worsening economy, Japan may also be too cheap to bypass entirely—if you have a strong stomach. Four out of 10 issues in the Nikkei index now cost less than their net cash holdings, says Barings' Hughes. Even so, he recommends holding only a small percentage of Japanese equities until the government acts to jumpstart the economy and corporations start the massive restructuring they need. Says Hughes: "Japan is too big to ignore but too dangerous to be fully invested in yet."

Goldman's Weingarten has reduced the number of Japanese stocks on his buy list in the past eight months. But he still likes Nippon Telegraph & Telephone Corp., which has undervalued assets such as its cell-phone division, NTT DoCoMo.

Asia's woes have sloshed over to Latin America. Mexico's Bolsa de Valores is down 23% in dollar terms this year, while Brazil is down 6% and Argentina 13%. Corporate earnings have been hit by tighter monetary and fiscal policies to counter the Asian shock and lower commodity prices. Elections in Brazil this year, Argentina next year, and Mexico in 2000 are making investors queasy. Redemptions of Latin mutual funds are running at about \$50 million a week, says Ian Laming, a strategist at Robert Fleming Inc. in New York.

GROWTH SPURT. The exodus may be premature. Mexico's economy is set to grow almost 5% this year, and Argentina may reach 6%. Even Brazil, with lackluster 1.5% growth in prospect, could produce some surprises. Companies there are slashing costs and paying down debts. As a result, Laming estimates, Brazilian companies' cash flow will rise 23% this year. Peter Jarvis, manager of Invesco's Latin American Growth Fund, is another Brazil bull. The country's stock market trades at nine times 1998 earnings,



JEFFREY M. WEINGARTEN
Managing Director
Goldman Sachs International

Jeffrey M. Weingarten, managing director of Goldman Sachs International in London, is no fan of Asia these days—despite bargain-basement valuations. He's putting his bets on Europe. Here are his views on world markets:

JAPAN: "If Japanese companies focus on restructuring, and if the government takes deci-

sive fiscal action such as implementing permanent tax cuts, Japan could turn out to be the biggest investment opportunity. But right now, there's no sign of that happening. Still, the risk of being underweight in the Japanese market is higher than in the past because the value of the Nikkei has dropped by one-third in the past few years."

ASIA: "Economic worries haven't disappeared, and the recovery will be fairly protracted. Think defensively, and focus on blue-chip stocks such as Hutchison Whampoa, one of Hong Kong's large conglomerates, trading at half its pre-crisis level. As is CITIC Pacific [another Hong Kong conglomerate].

EUROPE: "European companies are in an extraordinary position. Interest rates are expected to remain low. Company returns will remain high, as part of a trend toward greater efficiency. There has also been an enormous shift in the way European companies view their shareholders. At the same time, the cost of capital has declined dramatically. Most of Europe's strong performance is the result of higher earnings growth."

"EUROPEAN COMPANIES ARE IN AN EXTRAORDINARY POSITION"

though corporate earnings are set to grow at a 15% lick or better this year and next. "It's the only place in Latin America where you can see real momentum for change," says Jarvis.

One long-awaited change is the sale of the government's remaining stake in Brazilian telephone company Telebrás later this year. James W. Barrineau, Latin equity strategist for Salomon Smith Barney in New York, makes Telebrás a top pick because it is so cheap. "It's a long-term value play that's really undervalued," he says. Fleming's Laming also likes Telebrás' regional subsidiaries Telerj and Telemig, while Deutsche Morgan Grenfell prefers the São Paulo subsidiary Telesp.

Rising real wages this year are driving a spending spree in Mexico. Companies likely to benefit from the surge in consumption, says Barrineau, include TV Azteca—Mexico's No. 2 media company—and retail chain Elektra, which sells on credit to working-class families. Both have recently lagged the market.

Telecommunications companies remain a main staple fare in most investor Latin American portfolios. Deutsche Morgan Grenfell recommends Telcel de México. Despite its recent slide, American depositary receipts are up 17% this year—the company is profitable. Laming, too, likes telecommunications, particularly the exploding cellular business in Argentina. His pick: Telecom Argentina, which he expects to grow 15% this year.

Savvy investors can find plenty of global gems worth buying out there. All the same, they need to exercise some caution: Global markets are still digesting the roller-coaster event of 1997, so any new economic or political shocks could give world markets a hard punch. The best way investors can protect portfolios against a knockout blow is by employing a bit of defensive diversification.

By Kerry Capell in London, Elisabeth Malkin in Mexico City, and Mark Clifford in Hong Kong

"Gangbusters."



*"Sprint Toll-Free" Service
helped triple my sales
in just two weeks."*

—Roger Asmus
One on One Nutrition/Fitness
Wheat Ridge, CO

Introducing SPRINT'S SMALL BUSINESS

PERFORMANCE PLEDGE

*We pledge to work with you to
solve your business challenges
using the right mix of
products and proven tools from
recognized experts to help you
excel in critical areas such as:*

Ensuring Customer Satisfaction
Increasing Your Sales
Improving Employee Effectiveness

With a *toll-free number* from Sprint, Roger found the key to his success. And by applying other great

take off, too. What's more, we provide valuable business tools and advice to help you with:

- *Implementing a marketing plan*
- *Developing prospect databases*
- *Expanding your business internationally*

...and a whole lot more. Because Sprint not only understands your challenges but can actually tailor a plan to *help grow your business*. So put our Small Business Performance Pledge behind you. Call today.

Sprint products like *Fridays Free**, *local toll*** and *flexible international calling plans*, your sales can

1-800-477-1406 www.sprint.com/pledge/



We help your business do more business™

*For \$50 monthly commitment level, minimum of \$50 required on days other than Fridays. Customers who do not meet the minimum requirement will be billed the difference to equal the minimum. Maximum of \$200 in free local toll and long distance calling on Fridays per month, per customer. For \$200, \$500, \$750 and \$2,000 monthly commitment levels, maximum of \$1,000 free usage. For \$4,000 monthly commitment level, maximum of \$2,000 free usage. Offer good for up to 110 consecutive Fridays total. Excludes SprintFAX® and Sprint Conference Line® services. Certain restrictions apply. Domestic calls and commercial use only. Limited-time offer. Not valid with any other offer. Promotion subject to change.

**Local toll service from Sprint may require dialing an access code in certain areas. ©1998 Sprint Communications Company L.P.

BONDS

Bond Investors Will Have to Lower Their Sights

With most experts forecasting falling rates, high yields will mean higher risk

If you haven't invested in fixed-income securities lately, you're in for a shock. The 30-year Treasury bond is at just 5.8%, not far from its historic low. And there's strong belief that long bond rates could go to 5% or below. That would be a big boon for those who play the capital-appreciation game. But for the yield investor, seeking out attractive opportunities has never been harder.

Despite the low rates, many bond investors stick with conservative government securities. Many others, however, are flocking to high-yield and emerging-market debt. The risks are real, but for those with strong stomachs, the extra three to four percentage points over Treasuries may be worth it.

TUG-OF-WAR. There are many reasons behind the forecast of lower rates, but the most immediate is the Asian crisis. "The 12-month outlook for the bond market is dependent upon the damage in Asia and the damage it inflicts on our economy," says William H. Gross, managing director of Pacific Investment Management Co. (PIMCO), one of the country's largest bond portfolios, with \$130 billion in assets. He estimates that Asia's problems could cut U.S. economic growth by half: Asian currency devaluations will reduce prices of imported goods to the U.S. and increase the cost of American exports. As Americans substitute imported goods for domestically produced goods and U.S. manufacturers find it harder to sell goods abroad, the strength in U.S. demand may slow. "That's just what the markets need for a bond rally," says Gross, who predicts a long-bond yield of 5.5% by yearend.

Until that time, the current tug-of-war between deflationary pressures stemming from slowing growth and wage pressures from a tight labor mar-

ket will be intense, leaving some market-watchers unsettled. "This is the direst forecast period ever," says David H. Resler, chief economist at Nomura Securities International Inc. But Resler and others still think that a low inflation rate, which he estimates will range from the current 1.6% up to 2.5%, is sustainable even "though the market is slow to adapt," says Resler.

Some bond experts argue that real rates in Treasuries—the Treasury rate minus the inflation rate—are high. Since 1920, real rates have averaged 2.8%, says Philip Braverman, chief economist at DKB Securities. The average inflation rate over the last three years, as measured by the consumer price index, is 2.1%, making the real rate 3.7%. Given Braverman's belief in the likelihood of lower rates in the long-term, he suggests 30-year Treasuries or zero-coupon bonds. Thirty-year zeros will appreciate three times as fast as 30-year Treasuries if rates

fall. Although income from zeros is distributed, investors must pay income tax. But Braverman argues that's still a good deal because investors lock in a higher yield than he expects later on.

Zeros, of course, are for unrepentant bond bulls. For the less zealous fixed-income investor, it's better to be in a diversified portfolio of intermediate maturity. Ten-year Treasuries are a good bet, because of the likelihood of a declining inventory of U.S. Treasury debt and continuing strong demand from foreigners. Also, U.S. yields are higher than for government issues worldwide: German and Japanese 10-year bonds yield 4.89% and 1.22%, compared with 5% for U.S. counterparts.

Mortgages, which are bundled together and sold to investors, are riskier than Treasuries but are a high-



alternative for yield seekers. When earnings soar, many mortgages get off early. Prepayments hit 50% on the faster-paying 8% coupons in the first half of this year. "If the 10-Treasury rallies 25 basis points today's 5.55% and remains there, we could see prepayment rates faster clip than 50% in the higher-mortgages," says Dan Dektar, a portfolio manager at Smith Breeden Associates. He recommends investing in bonds with less repayment risk such as lower 6%- and 6.5%-coupon Ginnie Maes. Investors still get 100 basis points over Treasuries with low prepayment and minimal credit-risk and interest-rate volatility.

Municipals offer one of the few cheap spots of the bond market. "This segment is about as good as it has been," says Ian A. MacKinnon, chief investment officer of the fixed-income group at Nuveen & Co., recommends buying 15- to 20-year munis because there's plenty of yield without the volatility of the longer-maturity bonds.

The two most popular areas for yield-hunters are junk bonds and emerging-market debt. Junk's payout advantage over Treasuries ranges from 325 to 450 basis points. Adds Leslie J. Nanberg, chief investment officer at Massachusetts Financial Services, "the high-yield market is thinner, less leveraged, and more fixed than it once was." But buy-behavior. Default rates, still below historical average, are rising, and lower-quality issues have been common in the market recently. Telecommuni-

Margaret Patel, portfolio manager of the Third Avenue High-Yield Fund, is upbeat about modest economic growth and the sustainability of low inflation.

ON INFLATION "We've had seven years of strong economic growth without inflation. I don't see inflation picking up in the future because we've had growth without inflation in the past, and we're getting back to that now."

ON THE MARKETS AND

THE FED "The market is self-correcting, and only when the government weighs in do you get big dislocations. I think there has been a philosophical change on the part of the government. An interest-rate change will likely be for lower rates."



ON INVESTMENT STRATEGY "I invest in the out-of-favor sectors, looking for companies that issue bonds priced below their intrinsic value, have hit bottom, and are on their way up. I like the health-care sector, specifically Columbia/HCA Healthcare; the energy industry, such as Pogo Producing; and the telecommunications sector, specifically Level III."

ON A MARKET

CORRECTION "I'm fairly well protected in the event of a market downturn. Not only do I invest in sectors that are already in their own mini-recession but also I invest a portion of my portfolio in convertible bonds. Convertibles have defensive characteristics."

"I DON'T SEE INFLATION PICKING UP IN THE FUTURE"

cations is a popular pick among junk buyers. Nanberg likes COLT Telecom Group PLC, a local, long-distance, and Internet company operating mostly outside the U.S.

TOO RISKY? Fixed-income managers are finding the most yield, and the most risk, in emerging markets. "It's very volatile but it has been the best performer," says Daniel J. Fuss, managing partner for fixed income at Loomis, Sayles & Co. For the five years ended April, the J.P. Morgan Emerging Market Brady Index has returned a cumulative 123%, compared with 38% and 68% for the Lehman Corporate and High-Yield Indexes. Fuss has invested in Thailand, Korea,

and the Philippines to get 400 to 550 basis points over Treasuries. Lincoln Y. Rathnam, chairman of Boston's Schooner Asset Management, likes Brazil and Venezuela. But not everyone thinks emerging-market debt is worth the risk of payment suspension or outright default. Kevin M. McClintock, head of taxable fixed-income at Dreyfus Corp., thinks the sector "is overpriced and will continue to be negatively affected by the news flow from Asia."

Almost everyone agrees that finding value in corporate bonds is particularly difficult now. The yield premiums over Treasuries are historically narrow. Jeffrey Koch and John Bender, managers of Strong Corporate Bond fund are buying Delta Air Lines and Riggs National Bank. Earl McEvoy, Vanguard's corporate bond fund manager, likes the insurance industry, where many of the former mutual companies are first-time issuers.

For some fixed-income gurus, asset-backed securities—unlike corporate debt—can hold great value for investors who need to buy short-term debt. Robert Kapito, head of portfolio management for Blackrock Financial Management, thinks asset-backed offers a big supply of high-quality issues with long histories and low defaults.

In short, bond investors had best lower their expectations or increase their tolerance for risk.

By Toddi Gutner in New York

SOME SAVVY BOND PICKS

	RECOMMENDATION	RATIONALE	YIELD
GOVERNMENTS	Ten-year Treasury	Good capital appreciation and yield without the interest-rate risk and volatility of long bonds.	5.56%
ASSET-BACKED	Ginnie Maes 6%	100 basis-point differential over Treasuries, low prepayment, minimal credit-risk and interest-rate volatility.	6.56
TECH-RELATED	PSINet	Stable operating history in growing Internet service provider industry	9.42
EMERGING MARKETS	Dollar-denominated Thailand debt	Cheap, widespread over Treasuries, bonds but extremely volatile	9.77

DATA: SURVEY OF MONEY MANAGERS

Squeaking Past the Index Funds

Most portfolio managers didn't come close, of course. But a few have found a way

In each of the past four years, the highly trained and richly compensated folks who manage U.S. mutual funds have been humbled, if not humiliated, by the funds that blindly buy the stocks in the Standard & Poor's 500-stock index. And this year is no exception. In the first five months of 1998, the average U.S. diversified equity fund earned a shade under 9%, vs. a little more than 13% for the S&P 500, according to Morningstar Inc.

But this year, at least, some bold managers have figured out a way to beat the index funds: "focus" or "select" funds that concentrate on 20 to 30 stocks but buy them in larger quantities. "I've always dreamed of running a fund like Berger Select," says fund manager Patrick Adams. "You only go with your very best investment ideas." The \$32 million fund, which opened in January and has only 20 stocks, has so

far earned dreamy returns: It's up 44.4%, the year's best-performing equity fund so far (table). Among its holdings—Chase Manhattan, Chrysler, and Liz Claiborne. Adams also runs the \$1.9 billion Berger 100 Fund, with 60 stocks and a 14.3% total return.

"The ability to be selective will be an advantage this year," says veteran fund watcher Sheldon Jacobs, publisher of *The No-Load Fund Investor*, a mutual-fund newsletter. "This is not going to be the kind of year when everything goes up." Other concentrated funds in the top 50 performers include Weitz Hickory, Transamerica Premier Aggressive Growth Investors, and Marsico Focus—all with returns more than twice that of the S&P 500 and three times that of the average fund.

While most funds didn't beat those numbers, funds generally had a superb first quarter. Recently, though, mutual

funds have been giving up ground. The S&P 500 was up in April and down in May, and all told, is down about 1% in the second quarter. Large-cap growth funds, which invest in big multinational growth stocks that dominate the top tier of the S&P 500, have held the best. They've lost 1.2 percentage points in return this quarter and may have the same return as the S&P. In every other category of U.S. diversified fund, from large-cap value down to small-cap growth, while still in the positive column, has lost more ground. Worst hit were small-cap growth funds, the most volatile of all domestic funds. They were up 10.85% at the end of the first quarter, but their year-to-date performance is down to just 4.29%.

Most of the largest equity funds, which by necessity end up buying mainly large-cap stocks, are faring significantly better than average (table).

THE BEST RETURNS

TOTAL RETURN*		TOTAL RETURN*	
BERGER SELECT	44.40%	DEUTSCHE GERMAN EQUITY A	30.26%
MONTGOMERY GLOBAL COMM. R	40.01	FEDERATED INTL. EQUITY A	29.69
PROFUNDUS ULTRAOTC INV.	39.35	WEITZ HICKORY	29.64
SMITH BARNEY EUROPEAN B	38.02	MONTGOMERY GLOBAL OPP. R	29.53
FEDERATED INTL. SMALL CO. B	37.32	FIDELITY EUROPE CAPITAL APP.	29.22
WADDELL & REED INTL. GROWTH B	36.33	TRANSAMERICA PREMIER AGGR. GRTH. INV.	29.06
MONTGOMERY GLOBAL LONG-SHORT A	36.20	ARTISAN INTERNATIONAL	28.97
FIDELITY FRANCE	35.46	MARSICO FOCUS	28.90
SCUDDER GREATER EUROPE GROWTH	35.42	UNITED INTERNATIONAL GROWTH A	28.67
NICHOLAS-APPEGATE INTL. SM. CAP GR. A	34.84	WRIGHT EQUIFUND-BELGIUM/LUXEMBOURG	28.41
INVESCO EUROPEAN	34.35	ICON SOUTH EUROPE REGION	27.58
FIDELITY GERMANY	33.75	PHOENIX INTERNATIONAL A	27.33
IAI VALUE	33.58	BJB INTERNATIONAL EQUITY A	27.23
BARTLETT EUROPE A	33.22	BERGER MID CAP GROWTH	27.10
LORD ABBETT INTERNATIONAL A	33.07	PUTNAM EUROPE GROWTH A	26.87
AM.CENT-20TH CENT. INTL. DISC. INV.	32.27	GT GLOBAL EUROPE GROWTH A	26.75
PIONEER EUROPE A	32.10	MERRILL LYNCH EUFUND B	26.45
DEUTSCHE EUROPEAN MID-CAP A	32.02	PRIME LIPPER EUROPE EQUITY RET.	26.34
PRUDENTIAL EUROPE GROWTH B	31.78	PUTNAM INTL. VOYAGER A	26.31
CHASE VISTA EUROPEAN A	31.63	MONTGOMERY INTL. GROWTH R	26.08
INVESCO EUROPEAN SMALL COMPANY	31.40	EXCELSIOR PAN-EUROPEAN	25.93
ORBITECH INFO-TECH & COMM.	31.06	FIRST EAGLE INTERNATIONAL Y	25.83
BRAZOS/JMIC MICRO CAP GROWTH	31.00	VANGUARD INTL. EQUITY INDEX EUROPEAN	25.64
FIDELITY NORDIC	30.66	KEMPER EUROPE A	25.62
ALLIANCE NEW EUROPE B	30.56	GAMERICA CAPITAL A	25.24

Investor
who sent
their mo
to Europ
earned to
best
returns.
Some
"select"
funds al
stand on

merican Century-20th Century
ra Investors, which concen-
es on large-cap growth stocks,
vered the best showing, up
%. The 9th- and 10th-largest
ls in the table could muster
high single-digit results, but
re hybrids—portfolios that
include bonds.

ond-fund returns are re-
table but unexciting. Taxable
s are up 2.64%; tax-frees, up
%. But they're enjoying some
he highest inflows in years.
e the dollar flow to high-yield
l funds remains strong, in-
ors are also stashing cash in
e creditworthy investment-
e and municipal funds, says
ert Adler, whose AMG Data
ices tracks mutual-fund flows.

HABITS. In the past few weeks,
cially, investors have become more
ervative in their equity-fund in-
ing. That's typical of jittery in-
ors. Although earnings estimates
been falling all year, that reality
only begun to sink in. And renewed
omic—and now, political—turmoil
ia is also driving investors toward
-and-true big-cap stocks.

deed, equity-fund investors are
ring their buying habits. Through
, inflows to equity funds stood at
billion, about 22% ahead of the

HOW THE BIG FUNDS FARED

	BILLIONS	TOTAL RETURN*
FIDELITY MAGELLAN	\$71.5	13.25%
VANGUARD INDEX 500	61.2	13.06
WASHINGTON MUTUAL INVESTORS	45.8	10.98
INVESTMENT COMPANY OF AMERICA	44.8	10.71
FIDELITY GROWTH & INCOME	43.6	11.55
FIDELITY CONTRAFUND	33.6	11.14
VANGUARD/WINDSOR II	29.8	13.31
AM. CENT-20TH CENT. ULTRA INV.	26.0	15.60
VANGUARD/WELLINGTON	24.7	8.36
FIDELITY PURITAN	24.7	8.54

*Appreciation plus reinvestment of dividends and capital gains before taxes, Jan 1 through May 29, 1998
DATA: MORNINGSTAR INC

same period in 1997, according to industry reports. But Adler says in three of the five weeks ended on May 27, equity funds actually suffered outflows, and even the weeks of inflows were under \$900 million each. The only funds getting any significant new money, says Adler, are large-cap growth and S&P 500 index funds.

Dire headlines from overseas are prompting investors to pull cash out of international funds even though the returns of diversified portfolios have been good. Foreign funds, which exclude U.S. stocks, are up 16.63% for

the year, while world funds, which can include U.S. stocks, are up 13.35%. That's over four percentage points better than the average U.S. diversified equity fund.

Most of the oomph in international funds is coming from Europe, where falling interest rates, the coming of monetary union, and massive corporate restructuring are fueling huge rallies. The roster of the year's best performers is dominated by either funds specializing in Europe or broader international funds, such as Federated International Small Company B and Waddell & Reed International Growth B, whose managers have thrown geographic diversification to the wind to focus almost entirely on the Continent.

"There are a lot of cheap stocks in Asia and Latin America," says Federated's portfolio manager Tracy P. Stouffer. "But there is no growth."

Even though Euro funds are up 24.3% this year already, portfolio manager Thomas A. Mengel of Waddell & Reed thinks the Continent is the only global play now. "The EMU is a huge catalyst for change in Europe," he says. One of the most significant of those changes is the European public's newfound interest in equity investing. "In Italy, there's \$20 billion a month going into mutual funds," he adds. "That

THE WORST RETURNS

TOTAL RETURN*		TOTAL RETURN*	
LEXINGTON TROIKA RUSSIA	-48.60%	CAPSTONE NEW ZEALAND	-17.24%
WRIGHT EQUIFUND-HONG KONG	-24.77	FEDERATED ASIA PACIFIC GROWTH A	-17.17
MONTGOMERY EMERGING ASIA R	-23.55	COLONIAL NEWPORT TIGER CUB A	-17.05
GAM ASIAN CAPITAL A	-23.42	OPPENHEIMER REAL ASSET A	-16.99
NEWPORT TIGER B	-22.53	WRIGHT EQUIFUND-MEXICO	-16.84
CITIFUNDS EMERGING ASIAN MKTS EQ	-21.86	REMBRANDT ASIAN TIGERS INV.	-16.78
GUINNESS FLIGHT CHINA & HONG KONG	-21.15	FIRSTHAND MEDICAL SPECIALISTS	-16.70
U.S. GLOBAL INVESTORS GOLD SHARES	-21.05	PROFUNDS ULTRABEAR INV.	-16.70
MERRILL LYNCH DRAGON B	-20.63	GT GLOBAL NEW PACIFIC GROWTH A	-16.67
PRUDENT BEAR	-20.43	DREYFUS AGGRESSIVE GROWTH	-16.59
GUINNESS FLIGHT ASIA SMALL CAP	-20.35	TCW/DW EMERGING MARKETS OPPORT. A	-16.58
U.S. GLOBAL INVESTORS GLOBAL RES.	-20.23	VAN ECK ASIA DYNASTY A	-16.50
IVY CHINA REGION A	-19.90	IVY ASIA PACIFIC A	-16.47
NEWPORT GREATER CHINA A	-19.65	INVESCO LATIN AMERICAN GROWTH	-16.24
LEXINGTON CROSBY SM. CAP ASIA GRTH.	-19.26	GOVETT ASIA A	-16.17
PILGRIM AM. MASTERS ASIA-PAC. EQ. A	-19.14	GT LATIN AMERICA GROWTH A	-16.06
EATON VANCE GREATER CHINA GROWTH B	-18.81	FEDERATED LATIN AMERICAN GROWTH A	-16.00
U.S. GLOBAL INVESTORS CHINA REG. OPP.	-18.62	CVO GREATER CHINA I	-15.96
GOLDMAN SACHS ASIA GROWTH A	-18.39	MATTHEWS PACIFIC TIGER I	-15.80
VONTOBEL EASTERN EUROPEAN EQUITY	-18.23	DEAN WITTER PACIFIC GROWTH B	-15.60
DELAWARE NEW PACIFIC A	-18.04	GUINNESS FLIGHT ASIA BLUE CHIP	-15.35
ALLIANCE GREATER CHINA '97 B	-17.84	KEMPER ASIAN GROWTH A	-15.34
GOVETT LATIN AMERICA A	-17.76	MORGAN STANLEY ASIAN GROWTH A	-15.30
INVESCO ASIAN GROWTH	-17.37	TCW/DW LATIN AMERICAN GROWTH B	-15.14
FRONTIER EQUITY	-17.31	SALOMON BROTHERS ASIA GROWTH A	-15.11

After a brief
rebound
last winter,
Asian funds
are sinking
again.
Emerging-
market ills
are also
hurting
Latin funds

More taxes, Jan. 1

THE SEARCH FOR VALUE

MUTUAL FUNDS

THE BOND-FUND LEADERS

TAXABLE FUNDS

TAX-FREE FUNDS

	TOTAL RETURN*		TOTAL RETURN*
DREYFUS HIGH-YIELD SECURITIES	9.57%	ALLIANCE MUNI INCOME II VA. B	3.87
FIDELITY CAPITAL & INCOME	8.40	CITIFUNDS NATIONAL TAX-FREE INCOME	3.50
VONTOBEL EASTERN EUROPEAN DEBT	8.04	EATON VANCE HIGH-YIELD MUNICIPALS B	3.39
DELAWARE HIGH-YIELD OPPORTUNITIES A	7.78	DELAWARE NATIONAL H-Y MUNI. A	3.06
PUTNAM HIGH YIELD II B	6.89	VAN KAMPEN AMER. CAP. H-Y MUNI. A	3.03
LEGG MASON HIGH-YIELD PRIMARY	6.77	FRANKLIN MI. TAX-FREE INCOME	2.97
BT INVESTMENT LIFECYCLE SHORT RANGE	6.69	DELAWARE-VOYAGEUR TAX-FREE AZ. A	2.93
STEIN ROE HIGH YIELD	6.54	DELAWARE-VOYAGEUR TAX-FREE FL. A	2.89
FIDELITY SPARTAN HIGH-INCOME	6.50	JOHN HANCOCK MA. TAX-FREE INCOME A	2.87
KEMPER HIGH YIELD OPPORTUNITY A	6.46	DELAWARE-VOYAGEUR TAX-FREE NM. A	2.84
AVERAGE OF 1,368 FUNDS	2.64	AVERAGE OF 1,558 FUNDS	1.71

*Appreciation plus reinvestment of dividends and capital gains before taxes, Jan. 1 through May 29, 1998

DATA: MORNINGSIDE

would be a good number for the U.S."

As for Asia, international portfolio managers say they're watching and waiting. After all, it took about 30 months for Mexico's financial markets to shake off the 1994-95 currency-and-debt crisis, and that wasn't nearly as complex as Asia's. Still, portfolio manager Mark Yockey of Artisan International Fund says he keeps current on Asia so he'll be ready to buy when the time comes. "Markets always bottom before the economies," he says.

Asian funds dominate the list's worst-performing funds, but others share the gloom. The year's worst showing comes from one of last year's best, Lexington Troika Russia Fund, down 48.6%. That's not quite as bad as the battered Russian market itself. Problems in the emerging economies are depressing commodity prices—and Oppenheimer Real Asset Fund A. It's a unique fund that invests in bonds linked to commodity prices, and it's down 17% this year.

TOO MANY SHOES? The best performers include some unusual investments as well. Montgomery Global Long-Short A, up 36.2%, takes advantage of tax-law changes that make it easier for mutual funds to sell stocks short. Portfolio manager Nancy Kukacka says the fund has about 30% of its \$27 million portfolio in short positions. She's short Japanese stocks but net long in the U.S. The global scope of the fund allows her to take advantage of industry trends that cut across national boundaries. Right now, she's short on the footwear industry—starting with giant Nike Inc. "There's overcapacity, too much inventory, and with the problems in Asia, nowhere to un-

load the excess shoes," says Kukacka.

Brazos/JMIC Micro Cap Growth Fund, up 31%, is less exotic. But what makes it stand out is that it trounces the average small-cap fund. Portfolio manager John McStay looks for bargains among "orphaned stocks"—companies that have gone public in the past two to five years but have been ignored by company analysts and investors in search of the next hot initial public offering. "These are real companies with products, services, earnings, and good managements," says McStay. His picks include Antec, Oak Industries, and Harmonic Lightwave, which make hardware for the next generation of cable-TV upgrades, and specialty retailers such as Bed Bath & Beyond, Linens 'N' Things, and Elder-Beerman.

One of the year's most unlikely winners is IAI Value Fund, up 33.58%. This

15-year-old portfolio has a mediocre record, but it hit pay dirt last month when a private company in which IAI made a small venture-capital investment, Pathnet Inc., filed for an IPO. In anticipation of the IPO, the fund reduced the investment, causing its net asset value to shoot up 28% in one day. IAI then shut the fund door to new investors, lest they dilute the fund's stake in the potential bonanza. IAI never identified Pathnet as the source of sweet value, but Pathnet registration documents identify IAI Value as an investor in the company.

IAI Value is not a focus fund, but its plump return comes from one very smart stock pick. Of course, fund investors buy funds, not stocks, but the lesson is the same: It pays to be picky about which funds you select.

By Jeffrey M. Laderman in New York

STILL A GOOD YEAR FOR MOST FUNDS

	TOTAL RETURN*		TOTAL RETURN*
EUROPE	24.30%	SMALL-CAP VALUE	6.19%
COMMUNICATIONS	16.96	UTILITIES	6.16
FOREIGN	16.63	SMALL-CAP BLEND	6.02
WORLD	13.35	SMALL-CAP GROWTH	4.29
LARGE-CAP GROWTH	13.11	PRECIOUS METALS	-0.13
TECHNOLOGY	11.56	JAPAN	-1.15
UNALIGNED	10.95	NATURAL RESOURCES	-2.62
LARGE-CAP BLEND	10.91	REAL ESTATE	-3.04
FINANCIAL	9.65	DIVERSIFIED EMERGING MKTS.	-7.66
LARGE-CAP VALUE	9.34	DIVERSIFIED PACIFIC/ASIA	-10.70
MID-CAP GROWTH	8.47	LATIN AMERICA	-13.18
MID-CAP BLEND	7.99	PACIFIC/ASIA EX-JAPAN	-14.92
HEALTH	7.87	U.S. DIVERSIFIED EQUITY	8.95
MID-CAP VALUE	7.33	ALL EQUITY	8.11
INTERNATIONAL HYBRID	7.26	S&P 500 INDEX	13.11
DOMESTIC HYBRID	6.86		

Large-cap fund
beat mid-caps,
and mid-caps
beat small-caps

401(k)s

A Safety Net for Your Nest Egg

Put options aren't for everybody. But they'll pay off nicely if the market tumbles

You're sitting on huge gains in your 401(k), you're close to retirement, and you're worried that something—Indonesia, India, Ian Greenspan—is about to make rocks crash and splatter your nest egg all over the sidewalk. You could diversify your holdings better or move entirely into cash. But let's say you want to hang on to the portfolio you have because you don't want to miss any upward moves the market may have in store. Some investment counselors suggest laying on some "crash insurance"—namely, put options.

Put options aren't for everybody. The best candidates are sophisticated investors nearing retirement who have substantial 401(k) holdings—and enough cash on hand to spend on options that will likely expire worthless. Their main attraction is that they let you stay in the market with the stocks you like, secure in the knowledge that you won't be wiped out if the Dow Jones industrial average heads south. "The alternative is to exit the market, which could be expensive if you're wrong," says Michael Schwartz, chief options strategist at CIBC Oppenheimer Co. "This way, you can use some of the 40% or 50% returns you've earned lately to buy some protection."

The vehicle recommended by several strategists for hedging a diversified (k) stock fund is put options on the Standard & Poor's 500-stock index. You'll need to hold the puts in a separate account, because most 401(k) plans don't permit accounts to hold options.)

CHEAP. An index put option gives you the right to sell an index contract at a preset price (the "strike price"). The option can be exercised any time before its expiration date. When the index goes down, the option to sell at the preset price increases in value. So, your profit on the put would offset the losses in your 401(k).

Be aware that options aren't cheap. To hedge a \$200,000 portfolio through the end of 1998 could cost about

\$10,000 (table). Protection can stretch to three years with long-term equity anticipation securities (LEAPS). Those contracts cost more: as much as \$9,000 to protect \$100,000 through December, 2000. To reduce hedging costs, you can

buy a put that's a little "out of the money." This means that the options' strike price is below the index value, so the first part of a decline is unhedged.

According to Kevin Murphy, managing director of Salomon Smith Barney's retail options department, here's how you might use puts to hedge \$200,000 in diversified stocks in a 401(k) from now through December: Each put option hedges about \$100,000, so you would need to buy two. At the S&P's recent level of 1086, Murphy recommended buying a 1050 put, which was about 3% "out of the money" and cost \$4,950. If the market fell 20%, to 869, each put would be worth \$18,100. You are down \$40,000 on your portfolio, but the value of the puts is \$36,200, less the \$9,900 you spent on them. That gives you a profit of \$26,300, offsetting most of your \$40,000 loss.

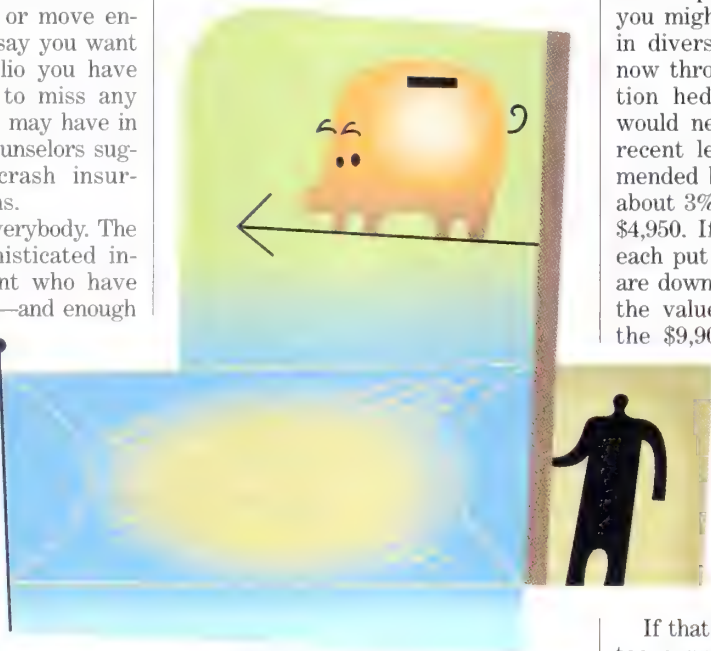
Conversely, if the market climbed 20%, the puts would expire worthless. But you would have made \$40,000 on your portfolio. Less the \$9,900 you spent on the hedge, you are up \$30,100.

If that much insurance strikes you as too expensive, you could hedge only half of your holdings: Buy one put, not two. "After all, you're looking at this as a hedge, not to make a profit," says Scott H. Fullman, chief options strategist at Swiss American Securities Inc.

One problem with puts is paying taxes on any profits you make on them. "That's now a nice gain in your own individual account and not your retirement account," says Stewart Winner, director of retail options sales and trading at Prudential Securities Inc.

For most people, Winner recommends getting out of the market instead of using puts. "You're trying to put a Band-Aid over a bigger problem," agrees John Markese, president of the American Association of Individual Investors. Maybe so. But for people who just can't bear to part with the 401(k) portfolio they've so carefully assembled, put options may be a way to ease the angst over the market turbulence that surely lies ahead.

By Amey Stone in New York



HEADING YOUR 401(k)

An investor nearing retirement wants to hedge her 401(k) against a crash. Her plan has \$200,000 in an S&P 500 index fund, \$100,000 in her employer's stock, and \$100,000 in bonds. Here are some choices:

- ▶ Spend about \$10,000 to hedge the index fund until yearend by buying put options on the index, for a separate account
- ▶ Hedge the company stock by buying put options or taking a short position—again, in a separate account. Or, buy puts on a related industry index
- ▶ Hedge the bonds with call options on an index of interest rates

Still Riding That Market Wave

Investors don't see many attractive alternatives to stocks right now. While fewer folks now expect stocks to go up over the next year than did six months ago, fewer anticipate a big crash or even think one is somewhat likely. Indeed, 37% of those polled think the stock market is either somewhat undervalued or fairly valued today, up from 33% asked in December, 1997.



Investors are fairly blasé about interest rates as well. Almost half of those polled expect rates to stay about the same, although 36% say interest rates may rise moderately.

On the merger front, 62% of investors expect corporate dealmaking and consolidation to give a boost to stock market returns over the next year, while 16% think M&A could have a negative impact on their portfolios.

BEST BETS

If you had to choose the one investment that you think would be the best to make right now, which would it be?

	MAY 1998	DEC. 1997	MAY 1996
Real estate	30%	33%	25%
Mutual funds	24%	21%	24%
Common stock	15%	11%	10%
Bank or savings & loan deposits	9%	10%	8%
Money-market funds	8%	5%	6%
Government bonds	5%	5%	9%
Gold or other precious metals	4%	4%	7%
Corporate bonds	3%	4%	2%
I don't save or invest at all	1%	2%	3%
Don't know	1%	5%	6%

INVESTMENT PLANS

Over the next six months, do you think you will probably invest a lot more in stocks or stock mutual funds, invest somewhat more, reduce your investment somewhat, or reduce your investment a lot?

	MAY 1998	DEC. 1997	MAY 1996
Invest a lot more	7%	5%	5%
Invest somewhat more	22%	22%	22%
Reduce somewhat	8%	10%	12%
Reduce a lot	10%	13%	18%
Stay the same	25%	22%	21%
I don't save or invest	23%	21%	20%
Don't know	5%	7%	2%

TAKING STOCK

Over the next year, do you think stocks will...

	MAY 1998	DEC. 1997	MAY 1996
Go up	35%	38%	39%
Stay about the same	40%	39%	36%
Go down	17%	16%	19%
Don't know	8%	7%	6%

INTEREST RATES

Over the next year, do you think interest rates will...

	1998		1998
Rise a lot	7%	Drop moderately	6%
Rise moderately	36%	Drop a lot	1%
Stay about the same	46%	Don't know	4%

CRASH TEST

Over the next 12 months, how would you rate the chance of another big crash in the stock market?

	MAY 1998	DEC. 1997	MAY 1996
Very likely	12%	14%	12%
Somewhat likely	32%	43%	35%

	MAY 1998	DEC. 1997	MAY 1996
Not very likely	38%	30%	31%
Not likely at all	14%	9%	11%
Don't know	4%	4%	4%

(REMAINING QUESTIONS ASKED ONLY OF STOCK INVESTORS)

GOING LONG

In the long run, what sort of total returns (capital gains plus dividends) do you expect the stock market to produce for you?

	MAY 1998	DEC. 1997	MAY 1996
Below 5% a year	1%	4%	1%
5% to below 10% a year	27%	27%	3%
10% to below 12% a year	34%	29%	2%
12% to below 15% a year	22%	21%	1%
15% or higher a year	14%	14%	1%
Don't know	2%	5%	1%

MEASURING THE MARKET

Overall, how would you describe the stock market's valuation?

	MAY 1998	DEC. 1997
Very overvalued	11%	1%
Somewhat overvalued	49%	5%
Fairly valued	29%	2%
Somewhat undervalued	8%	1%
Very undervalued	1%	1%
Don't know	2%	1%

MERGER MANIA

	1998
What impact do you think corporate dealmaking and consolidation will have on overall stock market returns in the next 12 months?	Strong positive impact 1%
	Somewhat positive impact 5%
	No impact 1%
	Somewhat negative impact 1%
	Strong negative impact 1%
	Don't know 1%

ASIAN IMPACT

	1998
What impact, if any, do you expect the instability in Asia to have on your investments over the next 12 months?	Strong positive impact 1%
	Somewhat positive impact 1%
	No impact 1%
	Somewhat negative impact 1%
	Strong negative impact 1%
	Don't know 1%

EDITED BY KEITH H. HAMMONDS

Survey of 1,007 adults conducted May 21-28, 1998, for BUSINESS WEEK by Louis Harris & Associates Inc. For complete results of poll, go to: www.businessweek.com or America Online, Keyword

Prudential's Search for Undervalued Stocks Has Led to Better Mutual Fund Performance

Average Annual Total Returns Ended 3/31/98

Fund Name	1-Year	6-Year	10-Year	Life Of Fund
Small Companies				
Prudential Small Company Value Fund* (Class B)	39.14%	19.13%	16.77%	13.99% (11.13.80)
Mid-Sized Companies				
Prudential Equity Income Fund (Class B)	44.47%	18.64%	16.12%	14.06% (1.22.87)
Large Companies				
Prudential Equity Fund (Class B)	31.24%	18.78%	16.97%	17.59% (3.15.82)
Overseas Companies				
Prudential World Fund/International Stock (Class B)	13.75%	n/a	n/a	16.59% (9.23.96)

*Prudential Small Company Value Fund is temporarily closed to new investors. Above figures include sales charges as disclosed below. Share prices and returns will vary, and you may have a gain or loss when you sell shares. Performance is only for share classes shown, and other share classes differ.

An inside look at Prudential's value approach. At Prudential, we've built a tradition of finding value in companies of all sizes in all kinds of markets — in the U.S. and abroad. We use intensive bottom-up analysis and carefully managed risk to identify and buy undervalued stocks. Then we take a disciplined approach to selling as they reach full value. It's a proven approach that's delivered consistent long-term results without taking on undue risk. Of course, past performance does not guarantee future results.

A strategy whose time has come.

In today's volatile market, now may be a particularly good time to rely on Prudential's proven value investing expertise. Ask your advisor to tell you more about Prudential's full range of value-driven stock funds. For more complete information on sales charges, management fees, expenses and share classes, call for a free prospectus. Please read it carefully before you invest or send money.

Call 1-800-THE-ROCK

extension 3110 www.prudential.com

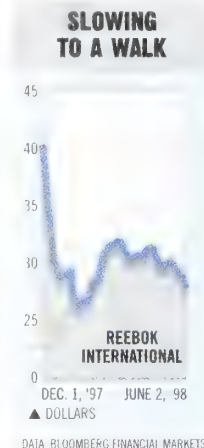


Prudential
Investments

different classes of shares are offered. Shares have a common portfolio, but loads and fees vary by class, which may affect performance. Funds invest in foreign securities which are subject to special risks including currency fluctuation and the impact of social, political and economic change. Investing in small companies and in derivatives also involves additional risk. These risks may result in greater share price volatility. Class B return takes into account the contingent deferred sales charge (CDSC) of 5%, 4%, 3%, 2%, 1% and 1% over a 6-year time period. After approximately seven years, Class B shares, on a quarterly basis, convert to Class A shares, which have lower overall expenses. Shares of the funds are offered through Prudential Securities Incorporated, 199 Water Street, New York, NY 10292 (member SIPC), and Pruco Securities Corporation, 213 Washington Street, Newark, NJ 07102, both subsidiaries of The Prudential Insurance Company of America.

A BUYER MAY BE ON REEBOK'S HEELS

Things are looking pretty grim at Reebok International (RBK): Earnings are under pressure, down a hefty 49% in the first quarter. Prices and orders are slumping, and inventories are on the rise. Reebok's shares, which hit 52¢ last summer, have slid to 28. So why is money manager Bob Olstein salivating over Reebok and snapping up the stock?



He thinks that Reebok is a buy-out deal just waiting to happen. "We're betting that a major consumer-products company before long will recognize Reebok's great brand franchise and assets and make a move to acquire it," says Olstein, chairman of Olstein Financial Alert Fund.

Second only to Nike in the U.S. athletic-shoe and -apparel market, Reebok "is ridiculously undervalued—based on its brand name, goodwill, and free cash flow," he adds. He calculates that Reebok's annual excess cash flow (after capital expenditures and taxes) runs to about \$150 million.

Olstein focuses on companies that are selling at a discount to their intrinsic, or private market, value. "I find such companies during periods of disappointing earnings and negative market psychology," he says. Reebok falls in just that category, he adds, with practically no analyst recommending the stock. Olstein's fund has outscored the Standard & Poor's 500-stock index each of the past two years.

He figures that Reebok is worth 36. In a buyout, however, according to Olstein, Reebok is a bargain at 40. Reebok has been in and out of the rumor mills for two years.

"We have heard that management is now prepared to put Reebok up for sale," says Olstein, "once it decides that it can't turn it around fast enough." Adds Olstein: "Our sources say that point has been reached." Reebok Chairman Paul Fireman "has indicated to analysts [that he would welcome offers]," says Olstein. Part of the company problem is the fierce competition in

the industry. "Reebok needs a new direction and strategy to reinvigorate its product lines—which are basically good and attractive," argues Olstein.

Analysts figure that Reebok will earn \$1.75 a share this year and \$2.37 next, compared with \$2.32 in 1997. The company's major brands include Rockport, Greg Norman (golf apparel and other casual sportswear), and Ralph Lauren Footwear. The company declined comment.

MORE TO CRUNCH ON AT GENERAL MILLS

To money manager Tony Spare, playing this market is like picking up apples that have fallen off the tree. That's because a number of blue chips have dropped out of this long bull run—including some companies whose fundamentals are on the upswing, he notes.

Take General Mills (GIS), the second-largest producer of ready-to-eat breakfast cereal: Its stock has lagged behind the market this year—dropping from 78¢ in early December to 69¢ recently—although the company's earnings are way up. But that's just dandy with Spare, who says General Mills "is a gift" at its current price. "It's worth 85," he adds.

Spare, chairman of investment firm Spare, Kaplan, Bichel & Associates in San Francisco, says that, apart from the rosy earnings projections, one factor makes General Mills extra appetizing:



SPARE: The stock is now "a gift"

He expects the company to buy from Nestlé the remaining half of Cereal Partners Worldwide. Currently a General Mills-Nestlé joint venture, Cereal Partners is expected to produce sales of \$1 billion this year.

Since the joint venture has yet to make money, "the market has not given it any value at all," notes William Leach, an analyst at Donaldson Lufkin & Jenrette. He sees the venture posting its first profit for General Mills in fiscal 1999, which ends on May 31. He figures General Mills' 50% stake is worth \$5 to \$7 a share. Leach has raised his fiscal 1998 earnings estimate from \$3.40 a share to \$3.55, and his 1999 numbers from \$3.15

to \$3.21. The company earned \$2.92 in 1997. The company couldn't be reached for comment.

SURGERY AHEAD FOR ADVANCED HEALTH?

Since hitting 27¢ in mid-October, the stock of Advanced Health (ADV) has gone downhill, closing at 12¢ on June 2. Heavy short-selling of the stock—partly because of problems with rival doctor's-office-management companies such as FPA Medical Management and MedPartners—has hammered the stock. But the shorts' happy day may be numbered, say some pros.

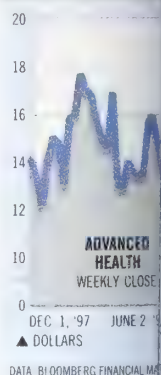
Management may break up the company to unlock the value of its two operations, say some pros. The word is that the Advanced Health Technologies unit, which sells information technology to doctors and hospitals, may be spun off to shareholders.

Valued separately, the unit—expected to contribute \$15 million in revenues this year and about \$25 million in 1999—would command a price of 7¢ a share, figures Louis Riley III, who heads Riley Capital Research. "Investors have overlooked this fast-growing and highly profitable unit," he says. One of its components: online software that automates prescription writing at the point of care.

Riley says the medical-practice unit should turn \$120 million in revenues, up from 1997's \$49.5 million. He values the unit at \$4 a share, based on 11 million shares outstanding. Combining that with a \$4 a share in cash, Riley figures the stock is worth 38¢.

Even without a spin-off, analysts see earnings of \$1.05 a share this year, up from \$1.46 in 1999, vs. 1997's 91¢. Chairman Jon Edelson says the company will take steps to unlock the value of the technology, which the market has failed to recognize.

A BREAKUP COULD BOOST ITS VALUE



BusinessWeek ONLINE

For more coverage of the markets, visit our Web site at businessweek.com

In the beginning
there was light.

(But, frankly, it
wasn't that good.)



Upgrade your lighting.

Introducing Lights™.

Lights™: the first ever, designed to

upgrade lighting —and save energy.

In a matter of hours, we can assess your

current lighting and outline exactly

how to make it more efficient. We'll

also show you how much you can

expect to save. Best of all, when you

purchase energy commodities from us,

we'll finance your bright Lights retrofit

100%. To find out how good light was

meant to be, call 1-800-743-3900 x100.



**PG&E Energy
Services**

People with energy.™

www.pgusf.com

Hossein Haeri, Director of Energy Information Systems

PG&E Energy Services is not the same company as Pacific Gas & Electric Company, the utility. PG&E Energy Services is not regulated by the California Public Utilities Commission, and you do not have to buy PG&E Energy Services' products in order to continue to receive quality regulated services from Pacific Gas & Electric Company, the utility.

Be Prepared. . .



...to enjoy the Second Annual Oakland Raiders
Boy Scouts of America
Invitational Golf Tournament
at the challenging Castlewood Country Club in
Pleasanton, CA. • **Monday, June 22, 1998**

The second Annual Oakland Raiders Boy Scouts of America Invitational Golf Tournament gives golfers the unique opportunity to play with Oakland Raiders legends, coaches and players.

Your generous support enables inner city East Bay youth to participate in Scouting. Scouting is a fun activity which develops desirable qualities of character, citizenship and fitness - qualities necessary for our future leaders.

Your day of golfing starts with brunch and a chance to learn more about the benefits of Scouting and talk with Oakland Raiders and Raiderettes. A handsome tee package is provided for each player and every foursome includes an Oakland Raider legend, coach or player.

Activities conclude with the evening gala reception, dinner and auction.

Participate in our Second Annual Golf Tournament and support inner city East Bay Boy Scouts.

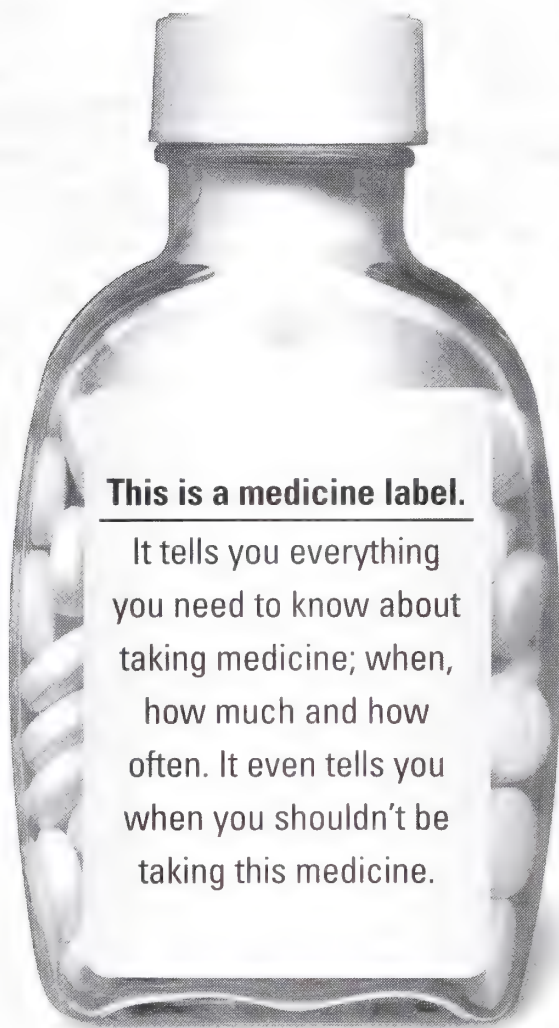


FOR MORE INFORMATION REGARDING:

Player Packages (Your foursome plus a Raider participant for \$3,000)
• **Tournament Sponsorships and Program Advertising**

Contact Jason Stein, Development Department • 510-638-3600 • SFBAC Boy Scouts of America

The Medicine Label... Your Road Map to Good Health



Just as you wouldn't drive across the country without consulting a road map, you should never take medicine without first reading the label—your road map to good health.



A message from the Council on Family Health

For the Council's free brochure on reading the medicine label, send a self-addressed, stamped envelope to:
Council on Family Health, 225 Park Avenue South, Suite 1700, New York, NY 10003



**WITH OUR REGISTRATION CERTIFICATE
YOUR COMPANY IS GOING PLACES.**

We're QMI—a division of CSA. If management system registration is one of your company's goals, call us. If superior service and attention to your company's needs are important to you, talk to us. If new business opportunities here at home or around the globe are in your plans, meet with us. At QMI, you get the registration certificate you need to compete. Find out why our customers consistently tell us our service is better than our competitors. Call. We'll give you a world of reasons to give us your business.

QMI and CSA. We deliver more than you expect.

Call 1-800-465-3717



MANAGEMENT SYSTEMS REGISTRATION

PAM THAT YOU MIGHT NOT DELETE

eters are discovering that personalized E-mail pitches work

nniece Martin's E-mail account has become a two-way shopping street. At least once a week, the 4-year-old Rosedale (N. Y.) sales agent signs on to find "reminders" from software vendor Parsons Tech. Inc. urging her to buy a new naker or clip-art program. Martin, who first used Parsons' order catalog last year, enjoys the personal feeling of an E-mail pitch. She also finds the service convenient. "I'm not ready to make a purchase, but I have to do is delete the E-mail," she says. Fortunately for Parsons, Martin doesn't do that often: She frequently orders up to \$100 on supplies after getting an E-mail nudge. Marketers hope Martin is part of a trend. Although users of E-mail have complained about unwanted direct marketing—commonly called spam—that hasn't stopped companies from looking for new and innovative ways to exploit E-mail as a marketing tool. By using sophisticated data-mining techniques to develop far more tailored messages, marketers may well be succeeding. Lured by the cost savings, and personal touches that are possible on companies such as 1-800-Flowers.com, Amazon.com, and others, they are testing the tactic. "The customer is willing, and it's an ideal opportunity for a personalized dialogue," says Kent Martin, president of Macys.com, the department store's online entity. "It gets us to a one-to-one relationship."

ALERT. One of the leaders in the virtual bookseller that has become a rival to brick-and-mortar chains. Order a *Star Trek* book with a *Lost In Space* volume, and you can expect to receive E-mail containing recommendations for similar sci-fi fare. Amazon.com customers also receive E-mail updates if a book author is conducting an online



Streamline, a delivery service, keeps track of groceries you order—and sends you E-mail when you might be low on cereal and such

chat or has published new work. The tailored E-mail program helps keep customers coming back: 60% of Amazon's 2.2 million customers are repeat buyers, up from 40% last year. But for Chief Executive Jeff Bezos, the real advantage over more traditional direct marketing is the ability to get people to buy something they didn't even know they wanted. "It's all about accelerating the discovery process," he says. "It's high-tech meets hand selling."

While all of Amazon's sci-fi fans get the same message, some smaller companies have managed to sculpt more personalized E-mail marketing. Consider Streamline Inc., a delivery service in Boston that contracts with local groceries, video stores, and dry cleaners. Customers send in shopping lists, and Streamline fills and delivers the order. But in addition to doing your schlepping, Streamline goes one step further into your personal life. The company keeps a database on what you buy and when. Based on your past behavior, its software creates a profile and automatically sends you E-mail reminders when its records show that you're probably low on cereal, toilet tissue, etc. The E-mail prompt encourages users to reorder through Streamline. The result: Streamline's customers—who spend an average \$6,000 a year—come back for more 90% of the time. "We can show the customer products that relate to them on a personal basis," says CEO Tim DeMello, who expects monthly revenues to hit \$1 million by yearend.

But is E-mail better than plain old paper junk mail? Does an electronic pitch pack more oomph than a dinner-time phone call? Some users, especially those who do business on the Internet, say yes. Dealaday.com uses E-mail to prospect for customers. The Internet

Marketing

closeout seller of brand-name clothing pays database companies for lists of E-mail addresses. The company sends group E-mail to as many as 10,000 names, all consumers who have indicated they would like to receive E-mail pitches. President Ed Mufson, who spent two decades as a retail executive running traditional chains such as Fred the Furrier, says prospecting via E-mail brings in more customers than any advertising or direct marketing he has used. "In normal direct marketing, if you get a 1% or 2% response, you're happy. With E-mail, I'm getting a 7%, 8%, sometimes 10% response," he says. "I give it a rave review."

Other companies have begun using E-mail to create promotions that could not be executed by slower "snail mail." Travelocity, a travel site on the Web, sends frequent E-mails called Fare Watchers, pitching last-minute cheap airfares. The time-sensitive information would be useless in a traditional direct-mail campaign, says Terry Jones, chief information officer for SABRE Group, Travelocity's owner.

Still more are lured by the obvious lower cost of letting a computer do the selling. No paper and postage costs. No telemarketing staff to hire. A host of new software programs can sift through a company's database and zap out E-mail. Add it up, and that can represent a cost savings of 75% or more, says

business customers. It used to take to six weeks, using snail mail, to develop marketing campaigns, such as an offer to handle computer leasing contracts. Now, Marketing Information Manager Rick Winterkorn says he can target a group of businesses with such service a single day—and for 10% less.

THIS ISN'T JUNK MAIL!

How E-mail marketers tailor their messages:

ASK FIRST Retailers such as 1-800-Flowers only send E-mail pitches to customers who request the service

STAY ON TOPIC Book buyers from Amazon.com receive E-mail suggestions based on their literature tastes

GET PERSONAL Streamline, a Boston-based delivery service, monitors individual buying habits of customers and sends tailored E-mail reminders

Chris McCann, senior vice-president at 1-800-Flowers. The national florist chain sent out 250,000 E-mail marketing messages to promote Mother's Day specials, in addition to the usual reminders in the post.

AT&T Capital Corp. has seen similar benefits in using the Internet and E-mail to offer its financing services to

PRIVACY FEARS. Despite early success, many of the biggest users of direct marketing have yet to get E-mail marketing in a way. Telecommunications and consumer financial-service companies, for example, are largely absent. The reason? They're afraid customers hate it, thanks to rising fear over privacy on the Internet. As more and more information about consumers' financial

or buying habits gets tracked and stored electronically—often without customers even realizing it—concerns over what such once confidential personal data can be exploited are growing. That's the reason BellSouth Corp., which collects data on its customers from its Web site, still uses the telephone and mail to deliver news of promotions and other

INTERNET ADDRESS: <http://www.datek.com>

Business Bulletin

Patho TEK Cures Common Cold

COLD CURE IN A BOTTLE, developed by Patho TEK, is due for release in mid April. CoryzaCC will suppress, and in completely wipe out, all symptoms of the common cold.

Big news can mean big opportunity. In the time it takes to sneeze, you can catch an unbelievable opportunity. So Trade Now™. Go directly to Datek...the fastest and easiest way to trade on the web. Only \$9.99 for any trade*. And if it's not executed within 60 seconds, it's commission-free. Trust your trade to Datek. And stay in the running.

**TRADE
NOW**



www.datek.com

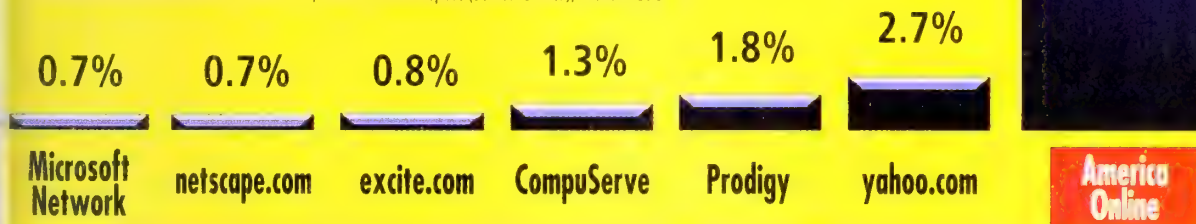
AMERICA ONLINE: RATED #1 ON THE INTERNET

53.2%

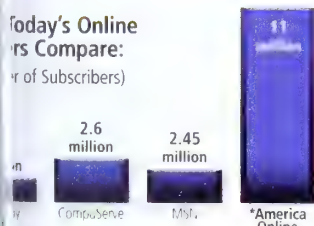


Share of the Online Minutes: (Average Minutes Online)

Source: Media Metrix/The PC Meter Co., WWW/Online Report (at-home data), March 1998.



Today's Online Providers Compare: (Number of Subscribers)



Source: Computer Communications, February 1998. *Company Estimate

Internet Online ratings show that people choose America Online more than any one else on the Internet. With an audience of over 11 million members, and with daily member usage averaging 45 minutes, America Online is the clear choice to connect with your customers. For more information about our broad

of marketing programs in cyberspace, please call Phil Frank, Eastern Regional Sales at 606-4443 or Randy Dean, Western Regional Sales at 650-287-4239.



So effective,
no wonder it's #1

America Online, Inc. All trademarks are the property of their respective companies

Aa Bb Cc Dd Ee Ff Gg
Hh Ii Jj 401(k) Ll Mm
Nn Oo Pp Qq Rr Ss Tt
Uu Vv Ww Xx Yy Zz

It's never too early to teach our kids about economics.

Chances are your children are not familiar with 401(k) plans. They are, after all, children. As they grow older, they're going to be faced with a dizzying array of economic options. Whether it's saving their allowance or saving for their retirement, we need to prepare them to make the right choices.

This is why The McGraw-Hill Companies, alongside the National Council on Economic Education, is supporting a campaign for economic literacy. With our expertise in education, finance and business, we can help students become more responsible citizens. As part of America's Promise, we've committed \$2.5 million to bringing our resources and volunteers into the classroom.

We're proud to provide our nation's children with the resources they need to succeed. We're proud to be a part of America's Promise. For more information, visit our Web site at www.mcgraw-hill.com.



AMERICA'S PROMISE
THE ALLIANCE FOR YOUTH™

The McGraw-Hill Companies

Keeping the world up to speed.

The McGraw-Hill Companies is keeping America's Promise.

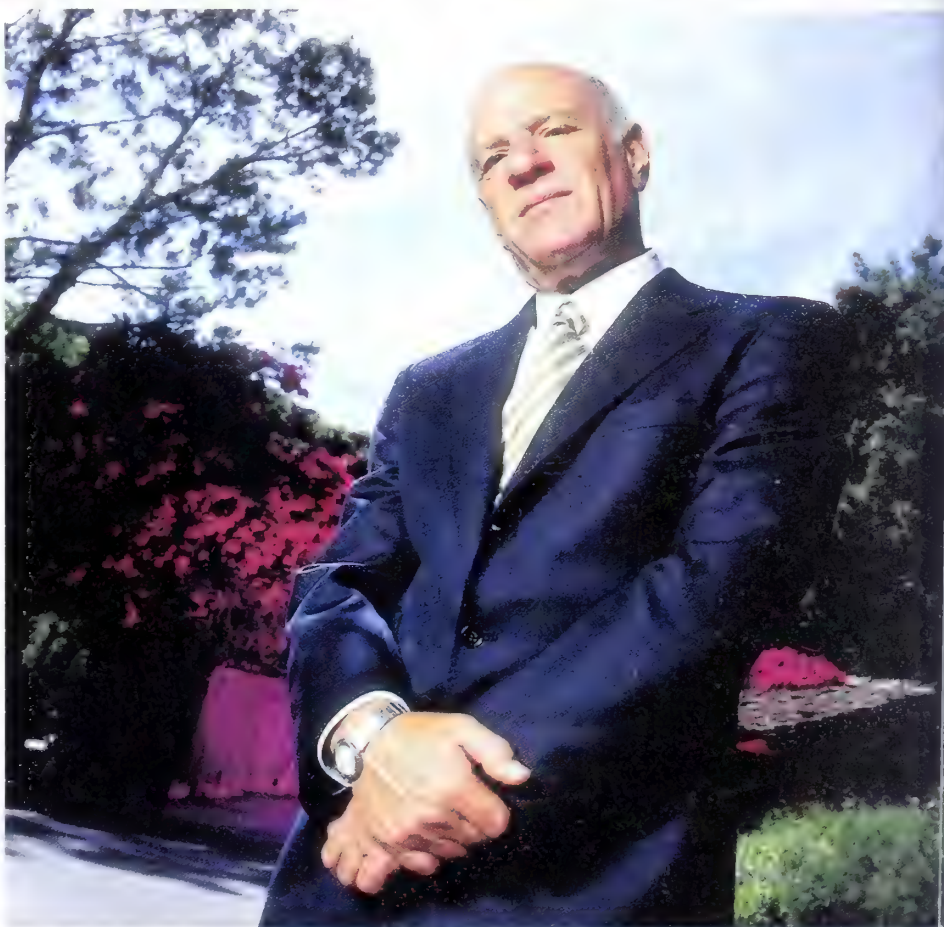
'BARRY OWNS THE WHOLE SHOOTING MATCH'

Diller's new TV-retail hookup may give the big networks a run for their money

Barry Diller, the man who brought America Bart Simpson, *Raiders of the Lost Ark*, and the Movie of the Week, is working the phones. Ensnared in a sun-drenched guest house in Beverly Hills that is the makeshift headquarters of his USA Networks Inc., Diller paces behind a large circular desk as he listens to the salary demands of an executive he has been trying to recruit, grimacing at the cost. "Hang in there," he tells another caller, an executive who has been nursing a new product line for the company. "The numbers are moving in the right direction."

For nearly three years, since losing the chairmanship of QVC Networks Inc. after an aborted attempt to buy the CBS network, Diller has been not-so-quietly amassing properties for his much-heralded return as a media mogul. On June 8, he plans to unveil the latest piece. It's a newly revamped Channel 69 in Miami that will be the first affiliate in a hybrid TV network reaching U.S. homes through both cable channels and broadcast stations. The formula, says Diller, is one that can take on NBC, CBS, and the other traditional networks in profitability, if not in ratings.

QUIRKY FARE. For the creator of the Fox network, this is small potatoes. The Miami station, which had been showing USA's Home Shopping Network Inc. (HSN), will feature such quirky fare as a couple of University of Miami Internet buffs conversing with folks they met online and *Miami Hotties*, a weekly beauty contest (men and women) with viewers calling in votes. Each night at



MEDIA MOGUL: "How many more half-hour sitcoms can America take?"

11:01, a pair of disembodied lips will read a minute's worth of news. In all, a year's worth of programming will cost \$20 million, roughly what NBC pays for two episodes of *ER*.

And that, Diller figures, is his secret weapon. His local fare needs only 3% of the audience to break even and is different enough to lure viewers, Diller insists. "Everything else on TV looks the same," he says. "How many more half-hour sitcoms can America take?" Diller figures his low-cost shows can cut through the clutter. But a national network? That comes later, when he has converted USA's other 11 stations to their own specially tailored local programming

and has linked them with other network properties, including the USA cable channel, his Home Shopping Network, and Ticketmaster Group Inc., the service that sells an estimated 60 million tickets each year (table, page 122).

The network Diller envisions will be driven nearly as much by retail advertising as ratings. By airing prime-time programming on both the local stations and the cable channel, he hopes to hike ad rates at both cable and broadcast properties. With more viewers, he will be able to boost fees that cable operators pay to run the USA Network and its sister channel, the Sci-Fi Channel. At the same time, Diller will be selling



Where would you like that delivered?

■ We're probably not the first state to promise you the moon. But we are, perhaps, more qualified than most to follow through on it. Mississippi has an aggressively pro-business environment. And, given our long-standing tradition of cooperation between business and government leaders, you'll have the opportunity to establish relationships destined to last long after the negotiations. ■ Call 1-800-340-3323 to hear exactly what we have to offer. Who knows? We might be persuaded to throw in the stars, as well.



Mississippi. We can do that.

tchotchkes from HSN or one of his three online retail sites. When viewers watch Miami Heat basketball games, for example, Diller intends to pitch them team merchandise. When the USA cable network begins airing the syndicated shows *Hercules* and *Xena*, a one-minute infomercial pushing dolls and T-shirts will accompany it.

Other media moguls aren't so sure of the linkage between TV and merchandise. "I don't know if it is the wave of the future or not," says Viacom Inc. Chairman Sumner M. Redstone, whose company operates rival UPN network. "He's still got to put stuff on the air that people are going to want to watch." A similar UPN venture failed last year when Sears wouldn't promote clothes that would be worn by characters on the UPN show *Moesha*. "We had to coordinate too much, and it didn't work," says Lucie Salhany, former UPN chief. But in USA's case, she says, "Barry owns the whole shooting match."

HODGEPODGE. It's potentially a big empire. If Diller can get his local stations working—and even he says "it's going to look awfully ugly for a while until we figure this out"—he will have access to more than 90% of America's households, just short of what NBC and CBS can muster. He already controls the USA channel, seen by 73 million cable- and satellite-TV households, and the Sci-Fi channel, which goes into 50 million homes. Of his 12 stations, 9 are situated in the nation's top 10 markets. Powerful assets to be sure, but USA, a hodgepodge of such shows as the slick *La Femme Nikita* and *Walker, Texas Ranger* reruns, gets only 2% of the cable audience on any given night, and Diller concedes that USA's lineup needs more of an identity.

Can Diller wring profits out of a media asset that gets 2% of the national audience and won't get much more anytime soon? The USA executive waves

away such concerns. Fueled by cable-operator fees and advertising, the USA and Sci-Fi networks generated a hefty \$164 million in operating profits last year. "That's more than any broadcast network but one," says Diller. And running local stations is dirt cheap. "These are the greatest assets in the industry right now," he says.

Diller's budding media powerhouse

UNCHARTED TERRITORY

“I can't tell you right now what will work. Because with something that new, no one knows what will work.”

— BARRY DILLER

got its biggest kick with his purchase last October of Universal Studios Inc.'s TV production assets and the USA and Sci-Fi channels in a \$4.1 billion cash-and-stock deal with Universal parent Seagram Co. The deal still has rival moguls wondering why Seagram CEO Edgar Bronfman Jr. would let go of his only TV distribution outlets. Bronfman says the deal was "the only way I could be in business with Barry Diller." But others aren't so sure. "I guess Edgar knows what he's doing," says Viacom's Redstone, "but it sure looks like he gave up a lot in an employment deal."

The payoff for Seagram, which has a 46% stake in USA, could still come if Diller can make his network fly. A vibrant USA network, which would lure younger folks with its hipper fare, would be a natural for shows featuring rock

videos by artists from Seagram's newly acquired Polygram music unit. And Seagram could tap Diller's Ticketmaster and online-shopping network to sell concert tickets. The two companies are discussing at least one show featuring Polygram artists. "We don't know what form our association is going to take," admits Bronfman, "but we know we have a distribution partner who is going to need programming we have."

Will Diller pull it all off? "I can't tell you right now what will work," says Diller with uncharacteristic caution. "Because with something that new, no one knows what will work." Diller guesses it's a matter of taste. "It's a matter of taste of how it feels to falter this quarter. That's when HSN was slow to see that consumers were shifting tastes to computers and electronics." HSN ordered so much jewelry that revenues dropped by 5% in the first quarter, and operating profits fell by 35%. "It shook us hideously," says Diller.

Revenue and profit growth are back up, Diller says. And should he get another boost soon when the giant Tele-Communications Inc., all owner of USA, designates the show service as the primary retailer for digital set-top box it plans to roll out next year to more than 6 million customers. Other deals could include a partnership with the National Basketball Association to run the giant league store it is building on New York's Fifth Avenue. The arrangement that could lead to NBA's over the shopping channels, as well.

It all looks too good to be true, but it is guaranteed customers and programming, thanks to such heavyweights as Bronfman and TCI. His stations are already providing steady cash. And cable channels are eating into ratings of traditional broadcast networks. Now, if he can only sell Michael Jackson's new album and a talk show with a couple of computer nerds.

By Ronald Grover in Los Angeles

In the Diller Domain

Former Fox and QVC executive Barry Diller has assembled a passel of TV and other properties that will make up a new broadcasting and cable empire:

1998	HOME SHOPPING NETWORK (INCLUDES ONLINE SHOPPING)	BROADCASTING (12 WHOLLY OWNED AND OPERATED STATIONS)	USA NETWORK/ SCI-FI CHANNEL (CABLE NETWORK)	TICKETMASTER	TV PRODUCTIONS
REVENUES*	\$1.1 billion	\$25 million	\$855 million	\$385 million	\$662 million
OPERATING PROFIT*†	\$180 million	-\$50 million	\$247 million	\$60 million	\$43 million

* Estimated † Earnings before interest, taxes, depreciation, and amortization

DATA USA NETWORKS, NATIONS BANC MONTGOMERY'S

WARE

HIS INTUIT HUNCH MAY PAY OFF

After a big setback, the Quicken maker takes to the Web



Year ago, Intuit Inc. announced that it would shift its focus from personal-finance software packages to Internet services. That so disd Claudia Carpenter, the top de of the company's flagship Quicken n, that she took a three-month absence. Intuit's stock was in a too, trading in the 20s—down high of 84 in November, 1995. It like the end of the company's says as the No. 1 maker of per- nance software. "Oh God!" Car- remembers thinking. "Where are g now?"
7, Carpenter knows where Intu- aded—and she's fired up about tination. She was coaxed back

Intuit "We've had to sublimate our ego," future CEO Harris says of the company's new alliances

to work last August, a month early, to design Quicken.com, the financial management Web site that is the centerpiece of Intuit's new strategy. Carpenter couldn't have been more prepared, since she had spent her sabbatical surfing the Net and sizing up its commercial potential. Since her return, she and her

colleagues have plunged into the job of transforming a traditional consumer software company into an Internet-based financial-services powerhouse.

It's a bet-the-company strategy that could finally deliver on the vision of its founder, Scott D. Cook. Back in the mid-1980s, Cook could see a day when people would tend to all their finance needs electronically—zapping off checks and handling everything from retirement planning to obtaining a mortgage online. But missteps—including Intuit's 1995 aborted merger with Microsoft

Corp. and an initial focus on proprietary online services—cost the company precious time.

It wasn't until last fall that Cook's vision began taking form with the launch of Quicken.com—a Web site where consumers and small-business owners can go for all of their financial management needs. Since then, Intuit has added mortgage and insurance services—and a payroll service for small businesses is planned for this summer. "We see it as an interwoven fabric of financial tools and services," says William H. Harris Jr., an executive vice-president who will become CEO in August. A former chief operating officer for ChipSoft Inc., a maker of tax software which Intuit acquired in 1993, Harris is the executor of Cook's Web strategy.

BUOYANT STOCK. Harris might as well be weaving his fabric out of gold thread: Intuit has invested more than \$100 million to date in its Web initiatives. Those investments already are beginning to deliver. In April, some 2 million home users visited Intuit's financial Web sites, according to researcher Media Metrix. That's a 60% increase since their launch in October—making Intuit the finance leader among home users, topping Yahoo! Finance and Microsoft's Investor.com.

That has buoyed Wall Street's enthusiasm: Intuit's stock has more than doubled in the past year, from 22 to around 47.

"They've turned the situation around," says William Blair & Co.'s David Farina, who estimates Web services will add \$45 million to Intuit's top line next fiscal year ending July, 1999—and could contribute one-third of its profits in five years.

Still, Intuit's future is far from assured. Since Cook began heralding the

online financial revolution, rivals also have gotten religion—even beating Intuit to the punch. Lured by the promise of transaction fees and premium ad rates, Yahoo!, Microsoft, a host of Web startups, and virtually every major bank and brokerage is vying to be a one-stop shop for financial services on the Net.

Complicating the picture, Intuit also is betting on a radically new business model. The company once relied almost totally on software sales. Now, it's shifting to an unproven mix of software licensing, online advertising, and transaction fees. And in the new world of the Net, the company must rely on financial and media partners, leaving it sandwiched between banks and brokerages that do transactions and Web portal sites such as Excite Inc. and America Online Inc. that distribute its content. "We've had to sublimate our own ego and become a part of somebody else's business," says Harris.

Intuit has a strong calling card, though, thanks to some 80% market share in its three main businesses—personal finance, small-business accounting, and tax software. The beauty of its new strategy is that each new service is a natural extension of its software products, which let users easily link to services on Quicken.com. That positions the company to take advantage of its strong brands—10.6 million Quicken users, 2 million customers of its TurboTax software, and 2 million small businesses that use the company's QuickBooks accounting software.

For now, online services provide just 5% of the \$580 million in revenues analysts project for Intuit's fiscal year ending in July. But Harris expects that to rise to 50% within five years. So far, advertising makes up the lion's share of Web revenues. Intuit sells banner ads and long-term sponsorships to four online brokerages, which have a transaction button on Quicken.com. Intuit's banner ads typically fetch a pricey \$50 per thousand viewer impressions, about double the norm. And ad sales have soared, along with an increase in page

views from 8 million last June to more than 76 million in April.

The next wave of Web revenues is expected to come from transactions. Intuit doesn't handle trades or other transactions itself. Instead, it ushers customers to its financial partners' sites and collect fees when they secure mortgages or business loans. In some cases, Intuit simply gets a referral fee for channeling potential customers to trans-

points when it relaxed its stance, forcing banks who license its software to feature the Intuit brand. "The number one concern has been who gets the customer relationship," says Tracey Posner, senior vice-president at NationsBank Corp. "They've become more flexible. They realize the value of banks."

Intuit also realizes the value of high-traffic Web portals in building market share. The software maker has entered

several exclusive distribution deals where exchange for a prominent spot on a portal site, it creates a colored version of Quicken.com and shares 30% of the ad revenues it receives on those pages. Intuit has cut such deals with Excite, and CNET. These don't come cheap, though. Intuit invested \$40 million in Excite to seal that partnership and it pledged to AOL \$30 million to guarantee against future ad revenues.

Meanwhile, Microsoft squeezed most of its profit out of the traditional personal-finance software business by began letting PC users bundle its Money program for a few dollars each. Intuit was forced to match that. Sure, its stock looks head-

says Lewis Levin, general manager of Microsoft's desktop finance division. "If you look more closely at the fundamentals, it doesn't look so good."

To be sure, earnings are erratic. Intuit made \$42 million in the second quarter, but because of an up-front payment of \$16 million to AOL, it lost \$1 million in the third quarter, ended March 30. And although Intuit has seen healthy revenue growth for the several years, its 1998 sales are expected to be slightly less than last year's, to the sale of a direct marketing subsidiary in April, 1997. And it's going to be in investment mode for the foreseeable future. That's why CEO William Campbell warns: "There's no Eureka coming. This is going to be a steady build." That's still better than what Intuit seemed to face a year ago, a slow decline.

By Steve Hamm in San Mateo, Calif.



consumer advocate Richard Katz. Here are some key features:

INVESTMENTS Financial news, stock quotes, charts, and alerts to news affecting a company in your portfolio are at your disposal.

HOME & MORTGAGE Browse home listings in your area—then shop and apply for a mortgage online from lenders. A refinance tool helps you figure out if you should get a new loan now.

SMALL BUSINESS Get advice for starting and managing your business. Coming this summer: a Web-based payroll service that could cut processing costs in half.

INSURANCE Evaluate your insurance needs, then shop online for home, car, life, long-term care, and disability insurance.

BANKING Pay bills, check account balances, or apply for loans with one of more than 80 online banking partners.

TAX In addition to tax tips and tools, there's an electronic filing service which, for \$9.95, walks you through the tax preparation process and transmits your return.

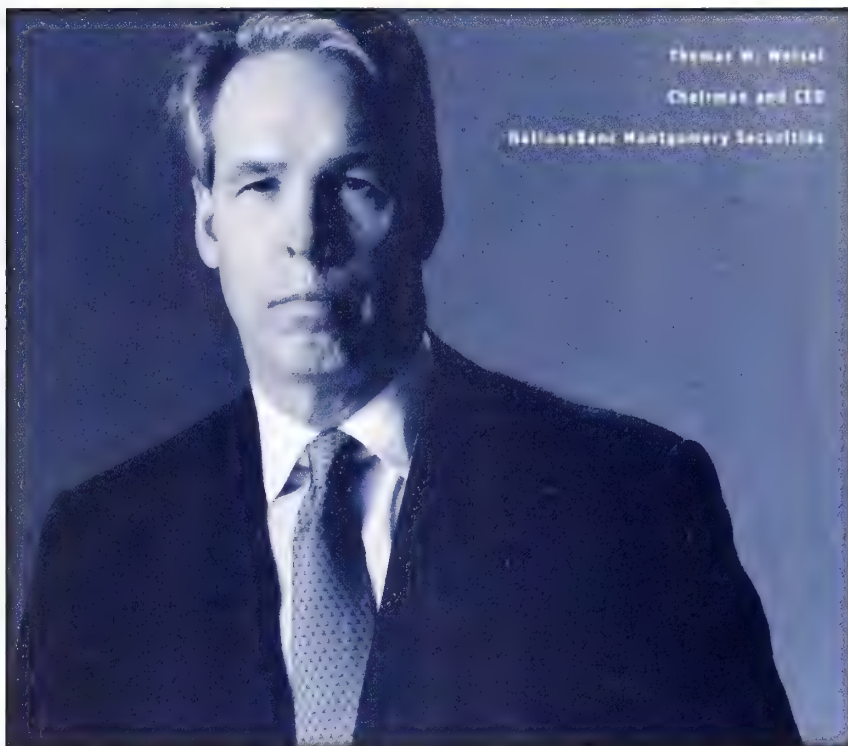
RETIREMENT Helps you figure out if you are socking enough away for your golden years, and provides valuable information on IRAs, 401(k)s, and other savings plans.

action sites. It gets larger fees for completed transactions—about \$800 on a \$200,000 mortgage, for instance.

NO "EUREKA!" Transaction revenues are just a trickle so far. But there's huge potential: Forrester Research Inc. figures that revenues from online financial services—including banking, trading, and insurance—could total more than \$4 billion in 2000. That's why Intuit is racing to forge partnerships with dozens of financial institutions that are selling products and services online.

It was either partner or perish. Both Microsoft and Intuit alienated banks in the mid-'90s with their ambitious plans. Lately, Intuit has tried to convince banks that it's willing to be an ally rather than a competitor—with some positive results. Nearly 80 banks, including Bank of America and BankBoston, have online links from Quicken. And two months ago, Intuit earned

SIEBEL FUELS LONG-TERM GROWTH



Thomas W. Weisel

Chairman and CEO

NationsBanc Montgomery Securities

Automating NationsBanc Montgomery's sales operations is one of the most important business decisions that we have made in twenty years."

NationsBanc Montgomery Securities

Member of NationsBanc

NationsBanc

Since 1990, NationsBanc Montgomery Securities has grown explosively. Revenues increased from \$104 million

in 1990 to more than \$700 million for 1996 and staff quadrupled. To continue this growth and maintain

NationsBanc Montgomery's exceptional customer satisfaction, Thom Weisel partnered with Siebel Systems. With Siebel Sales Enterprise,

NationsBanc Montgomery professionals quickly identify and analyze new opportunities, slash the sales cycle, and increase value to

their clients. And management effectively allocates precious sales resources to maintain NationsBanc Montgomery's leadership in the

booming capital markets. With Siebel, NationsBanc Montgomery is ready for the next century. To learn how Siebel Systems can prepare

your organization for the future, call 1-800-720-3115, ext. 9194 or visit Siebel at www.siebel.com.

SIEBEL
Sales • Marketing • Customer Service

THE INTERNET

AN INSTANT SUCCESS! SO WHERE'S THE PAYOFF?

Quicker than E-mail, instant messaging is red-hot

Not everyone in the city planning department of Albany, Ga., has E-mail. But all 20 of the department's personal computer users have ICQ. Short for I Seek You, the free program from Israeli startup Mirabilis Ltd. lets them exchange messages instantly over the Internet—faster than regular E-mail. Colleagues use it to trade drafting files and stay in touch on the road. Says city project manager Jack Hierholzer: "It's more immediate than E-mail, and it's a lot less intrusive than a phone call."

It's also the latest craze on the Net—and the reason Mirabilis is the Internet's hottest takeover target. Insiders say America Online Inc., which offers a similar service, is negotiating to buy the two-year-old company for up to \$300 million in cash or stock. Neither company will comment. But the prize for AOL is clear: In the race to capture bigger audiences, Mirabilis' 6 million users are a potential gold mine. "We're trying to aggregate as many eyeballs as possible," says Yossi Vardi, Mirabilis' chairman and financial backer, who founded the company with son Arik Vardi, Yair Goldfinger, and two others.

BUDDY SYSTEM. Other companies are trying as well: Overall, nearly 35 million Web users have made instant messaging a prime communications tool, right next to E-mail. Instant messages closely mirror the swift exchanges found in chat rooms, but are more private since they're one-to-one conversations. Unlike E-mail, with the delay between replies and answers, instant messaging is nearly simultaneous, taking place within a dialogue box on the screen. For businesses, instant messaging software oftentimes runs on a company's network, providing some security for documents and discussions.

The boom was kicked off two years ago when

AOL developed a key innovation called "buddy lists." These small on-screen windows pop up to tell people when friends and colleagues are online. Now, 225 million instant messages whiz daily around AOL's buddy-list network. And some 500,000 people use Mirabilis' ICQ simultaneously at peak hours.

The big question: Can anybody make money on instant messaging? Besides outright acquisition, "it's not clear what the business model is," says Mark Saul, CEO of Acuity Corp., which sells communications programs that include instant messaging.

The most immediate prospect—besides selling out—is simply selling software. Many instant-messaging startups are mimicking Netscape Communications Corp., which gave away Web browsers to build demand for lucrative server software. Likewise, instant-messaging programs are free, but they run on backroom software costing \$500 and up.

The first target of the instant-messaging startups: Web-site operators. Acuity, for instance, sells software packages that have helped Yahoo! and Sony's The Station Web site set up chat rooms and instant messaging. Still, there's a limit to how many sites want to offer those services. So now, Acuity and others are aiming at corporate intranets, where instant messages fill a void between E-mail and programs such as IBM's Lotus Notes, which lets employees collaborate.



MIRABILIS DUO
Yair Goldfinger's and Arik Vardi's ICQ program claims 6 million users

AOL, Mirabilis, and others, however, are hard to generate different revenue streams, such as advertising. Buddy-list windows offer advantages over

sites for ad placement: People spend more time chatting, and they usually provide information about themselves when they register for the software. That means advertisers can target their audience more precisely. Problem: Many advertisers seem reluctant to place instant-messaging windows are smaller than 10% of the screen. And advertisers worry people will resist such a private setting. "We prefer to be less intrusive," says Weinstein, Wells Fargo Bank's vice president of online financial services.

The uncertain revenue prospect may well relegate instant messaging to a mere adjunct to other communications programs. Microsoft Corp. plans to buy the instant-messaging technology bought when it acquired Flash Communications in February to its Exchange E-mail program. No wonder Mirabilis' main goal is to be acquired. With only a trace of irony, Vardi insists that making revenue is a big distraction. "Ultimately, instant messaging will deliver profits, not just promise."

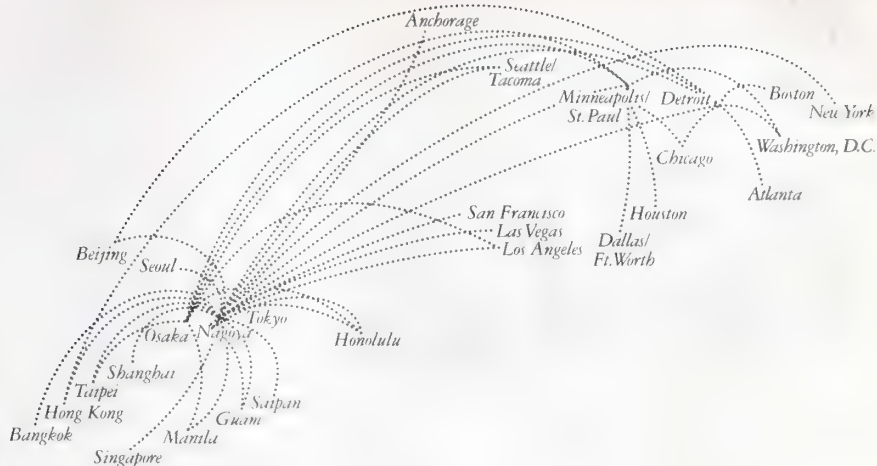
By Robert D. Hof in San Mateo, Calif.

WANNA CHAT?

COMPANY	ACTIVE INSTANT-MESSAGING USERS*
AOL	20 million
MIRABILIS	6 million
E-SHARE	5 million
ONLIVE	2.2 million
TRIBAL VOICE	600,000
ACUITY	500,000
PEOPLELINK	225,000
ACTIVEVERSE	100,000

*Those who logged on in the past 30 days.

DATA: COMPANIES



Your choices are extensive...
the possibilities, infinite.
With more than 100 nonstop
flights a week from 9 U.S.
gateways to cities throughout
Asia, Northwest Airlines
provides more convenient
access to the Far East
than any other airline.
More experience, more
flights, and more flexibility
for you.

Call Northwest Airlines at
1-800-447-4747, book online
at www.nwa.com, or call your
travel agent.

Your best options to Asia
will always be with Northwest.

**With more than 100 nonstop flights
weekly to Asia, your travel options
are endless.**



©1998 Northwest Airlines, Inc. Northwest recycles enough paper products in one year to save 16,000 trees.



1-800-447-4747 / www.nwa.com

THE GAMES SONY PLAYS

PlayStation is a blockbuster, but can the company make the grade in cyberspace?

A recent episode of the hit U.S. comedy show *Friends* tells it all. One of the characters offers to bear a baby for a childless couple. "I'm going to be giving someone the greatest gift you can possibly give," she says. Replies Chandler, the show's resident wisecracker: "You're going to carry their child and give them a Sony PlayStation?"

The Sony PlayStation. It seems that just a few nanoseconds ago, we lived in a world where video games meant Nintendo and Sega. Now, PlayStation's sales, profits, and—most important—its buzz are so strong that the 32-bit game machine has become a fixture in the popular imagination. Its quirky menagerie of sports, action, and cartoon characters has romped across four continents and made Sony Corp. the Master of the Game Universe—for now.

BANNER YEAR. Sony Computer Entertainment, the company's four-year-old game division, has sold more than 33 million units of PlayStation worldwide, along with 236 million game CDs. In the fiscal year that ended

March 31, the PlayStation business accounted for \$5.5 billion, or 10%, of Sony's worldwide revenue, but it chipped in \$886 million, or 22.5%, of its operating income. Thanks to PlayStation and a weak yen, Sony notched up a banner

year, with record operating income of \$3.9 billion on record sales of \$51 billion. "We've never had a business like this," exclaims Chairman and Chief Executive Norio Ohga.

That's impressive, especially because Sony stumbled into the game business almost by accident. Now,

PlayStation is a money-maker for the company, one of the few Japanese multinationals to shrug off the country's dire recession. More important, PlayStation has proven a point that Sony managers have long felt intuitively: that digital, interactive entertainment offers the only plausible future. In recent years, the company has produced a string of turn-of-the-screw product innovations from MiniDisc players to flatter television screens. Yet the margins on "boxes" get lower and lower. And none of

CRASH BANDICOOT, AND LARA CROFT FROM TOMB RAIDER



these

developments has unleashed either profits or excitement of PlayStation.

Thus PlayStation has provided a glimpse of what the new Sony could be capable of—a company with great awareness that spawns even more excitement and much more profitable software. Sony wants to apply the lessons of PlayStation to its marketing and distribution of music, film, TV, and games on the Internet. And it wants to achieve something unheard of in the PC world: make it all as easy and crashproof as the PlayStation. Masayuki Nozaki, executive vice-president at Sony PlayStation Entertainment, is one of the architects of this strategy. As Sony nurtures new businesses, he says, "It will be a 5-year period of adjustment and

Sony must stay ahead in the hideously fickle game business

**KUTARAGI:
NINTENDO LEFT
HIM IN THE
LURCH, WHICH
WAS A BAD MOVE**

a 10-year cycle of real changeover."

Looking ahead, the company sees fresh profit streams in music and video downloaded from Sony Web sites straight to Sony home-entertainment systems. Movies from its Hollywood studios could morph into PlayStation and Internet games. As the innovations multiply, the PlayStation hardware itself could evolve. Imagine, muses Trip Hawkins, CEO of game-software maker 3DO Co., that you are shopping for the latest game console that doubles as a digital VCR: "What brand would a customer rather play movies on? Sony, Nintendo, or Sega?"

Yet the pitfalls in Sony's path outnumber the ones that beset its hyperenergetic game mascot, Crash Bandicoot. Challenge No. 1: catch up with America's high-tech leaders, from Microsoft Corp. to Amazon.com Inc., which

are circling around Sony in cyberspace. Challenge No. 2 (and this is the hard one): stay ahead in the hideous game business, so that PlayStation can bankroll all this development. In 1991, Nintendo gave Sony plenty of support, with its more sophisticated Super Nintendo. Now, Nintendo of America's Howard Lincoln admits, the company has lost some U.S. market share. "We're not selling cat food. This is the same business, and market shares are changing very dramatically," he says. "Action is essential. With Japan in a recession and the Asian crisis brewing, Sony managers estimate that

profits will probably decline some 10% this year. Some analysts are more bullish. Still, Sony's stock on the New York exchange has drifted from 96 in February to a recent 83. Even though PlayStation could continue to win converts in the West, the Japanese market is nearly saturated. "Sony is at the peak of its cycle now and has nowhere to go but down," says Kimihide Takano, senior analyst at Tokyo's Dresdner Kleinwort Benson. Long term, the Internet could also bring new upheavals. "The digital explosion is creating drastic change and forcing Sony to transform itself," says Sony President Nobuyuki Idei.

The wizards of Silicon Valley wonder if Sony can hack it. After a noisy entry into the PC market with the much admired VAIO line, Sony priced the machine out of most people's reach last year—just when Compaq and others were launching sub-\$1,000 PCs. Valley mavens—and some recently departed Sony execs—wonder why Sony hasn't merged PlayStation with its slow-selling PC products, to give them a little lift. And they note that Sony's experimental digital communicators and DVD machines haven't sold any better than its rivals'.

Nonetheless, with the PlayStation, serendipity has favored Sony mightily. The origins of the game are perfectly in sync with the helter-skelter nature of digital invention. A decade ago, Ken Kutaragi, a Sony computer engineer with a passion for video games, proposed a console that would combine the graphic capabilities of a workstation with Sony's CD-ROM drive. When Nintendo Co. jumped on board, Ohga gave Kutaragi the go-ahead to set up a joint development team. But several years later, in 1992, Nintendo abruptly pulled out, leaving Kutaragi in the lurch.

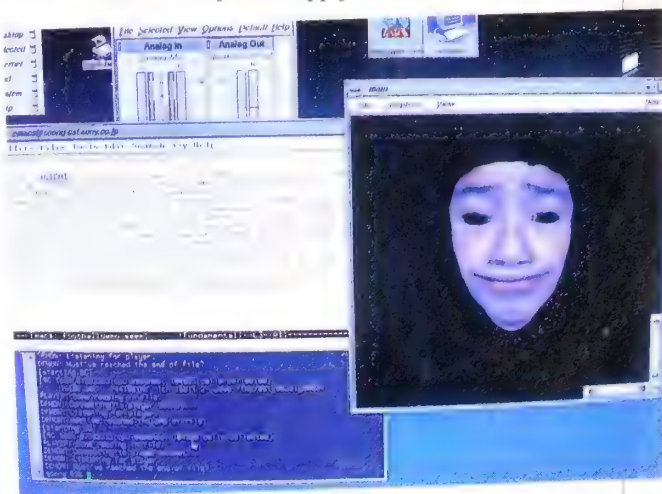
Bad move, Nintendo. When Ohga confronted Nintendo President Hiroshi Yamauchi, the latter denied any knowledge of a binding agreement. "Ohga was so furious, he told me to proceed with my project," says Kutaragi, now head of R&D for the PlayStation. Today, Nintendo says it preferred to stick with its ROM cartridge approach, which has less memory but more speed. Whatever transpired,

Sony enticed most of Japan's game developers to its platform—along with top U.S. developers such as Electronic Arts—by offering some 4,000 game development tools and a bigger share of the profits than Nintendo.

All told, Sony has swamped the \$8 billion Japanese game-software market with nearly 1,300 titles, prompting an outraged Nintendo President Yamauchi to warn last year that Sony could kill off the industry with all of "its garbage." Nintendo was right: Its carefully chosen N64 titles sell well. But in Japan, the paucity of game titles turned off fans—many of whom turned to the PlayStation.

SPORTS SPLASH. From the day it was launched, the PlayStation has projected an aura of hipness. For one thing, Sony largely ignored Nintendo's subteen following and zoned in on older customers, offering racier, more complex games. They enlisted athletes such as Terrell Davis, running back for the Denver Broncos football team, and Charles "Bo" Outlaw of the Orlando Magic basketball team to help promote world-beating sports titles.

Now the challenge is to move beyond PlayStation's hip franchise into even more lucrative and far-reaching businesses. In the world as Idei sees it, Sony will supply "content" to homes via



digital satellite, cable, and the Internet. Compaq Computer, Hewlett-Packard, and IBM also believe that PCs and entertainment devices will merge. But Sony is the one that dominates the living room. And it understands that movies and games are a bigger draw than word processors or electronic checkbooks. As

**AN ANIMATED
CYBER
SOCCER
COMMENTATOR**

Can PlayStation bankroll the giant's digital future

Science & Technology

Nick Donatiello, president of U.S. market researcher Odyssey Ventures, puts it: "Entertainment is an 800-pound gorilla, and productivity tools [such as spreadsheets] are just Chihuahuas."

The computer and TV, or a hybrid, would anchor this multimedia world, and Sony is now squarely in the game. Although its VAIO PC has flopped in the U.S., Sony can barely keep up with demand in Japan for its two notebook versions. The VAIO comes with an interface that makes it compatible with all of Sony's digital products. Eventually, it may have some unique, PlayStation-derived game feature.

In the meantime, the company is rolling out some exotic digital toys. In May, it took the wraps off a \$30 handheld game code-named "PDA," for personal digital assistant. It plugs into the PlayStation and shares bits of software such as digital pets. Players can nurture their critters on the PDA alone, and swap them with friends over an infrared link. The PDA could grow, critterlike, into an information and communications device. Ditto, the welter of cool ideas in Sony's Computer Science Lab in Tokyo. Ever see a data wand? You point it at an interactive poster, a TV, or a printer and capture the information, which you can transport to a computer. Sony engineers also dig robots and like to match their creations in RoboCup events. There's a creative entertainment twist: Animated commentators whose words and facial expressions track developments in the race.

TITANIC TRACKS. In the U.S., Sony's networked future is in sharper relief. Today, Sony's Web site promotes music with snippets of songs sent in streaming formats. But as bandwidth becomes more plentiful, Sony plans to harness the power of the Web with a plethora of new services marketed directly to consumers—bypassing the middleman and pocketing higher margins for itself. Indeed, the Web looms so large that even though Sony is among the best-known brands in the world, Idei wants to create a new name for its online ventures that will resonate as clearly as, say, MTV.

Sonymusic.com is already among the most popular music sites, thanks to hits such as the *Titanic* soundtrack and Ce-

line Dion's *Let's Talk about Love*. The site is linked to all of Sony's labels, including Columbia, Epic, and Sony Classical, and attracts up to 1 million visits per week, says Fred Ehrlich, senior vice-president and general manager for new technology and business development at Sony Music Entertainment Inc. in New York. The attractions are many. At subsidiary site bobydylan.com, fans can watch a six-minute streaming video of Dylan's recent hit *Not Dark Yet* and search for lyrics from his records on Columbia stretching back to the '60s. Fans can also buy CDs and concert tickets online, read liner notes, and listen to previously unreleased material.

Another tactic is to connect multimedia content on the Web directly to music CDs. When played on a CD-ROM in a PC linked to the Web, so-called Connected CDs let listeners click on a menu and search CDs for lyrics or guitar licks or view fresh material such as musical scores and photographs of the artists—tasks that would boggle your boom box.

IDEI AND OHGA: BETTING THAT DIGITAL INTERACTIVE ENTERTAINMENT IS THE ON PLAUSIBLE WAY TO GO

Films like Sony's *Godzilla* won't be distributed on anytime soon. But other Sony entertainment properties, including such lucrative game shows, as *Jeopardy!* and *Wheel of Fortune*. On games like these will eventually complement and supplant its PlayStation business as game consoles connectivity to the Web. Says Paul Matteucci, executive of Mpath Interactive, which runs a hot game and chat area on the Web: "Sony has a lead position in one segment—console games—and is taking a revolutionary strategy in other."

International Game Corp. in Framingham, Mass., says online games could be worth \$1 billion a year by 2000. Sony claims its game site already has 1.25 million users, half of them women.

But in the here-today-gone-tomorrow video-game industry, there is no guarantee Sony can keep PlayStation humming. Late last month, on the eve of the "E3" game industry event in Atlanta, Sega sneakily viewed its 128-bit Dreamcast console, which debuts in Japan this

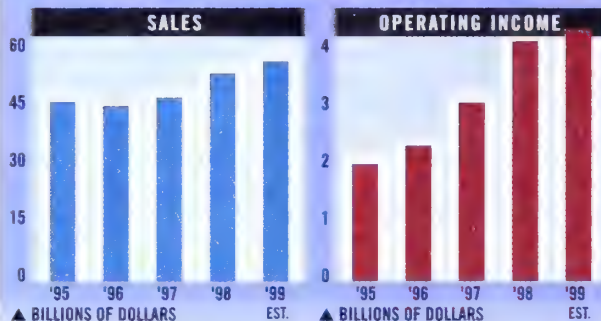
November. Later, Sega will spend \$10 million on the U.S. launch.

Many game developers think Dreamcast has a chance only if either Sega or Nintendo fumbles. No chances for Sega, says Idei. "We are working on PlayStation 2, a next-generation machine, but I can't say more." Sony Computer Entertainment President Tokunaka, however, says a DVD game machine is a possibility. Tokunaka has been making the rounds of the top game-development companies, according to an executive at a major Osaka game-software maker who came around two months ago, only to be told to support their new platform. "It's around," he recalls. The word is that once PlayStation sales peak, Sony will be ready with something new. The course, is how Sony plays the game.

By Irene Kunii in Tokyo and Tom V. Brull in Los Angeles, with Peter Burrows in San Mateo, Calif., and Edward C. Baig in Atlanta



SONY'S RECORD PERFORMANCE



DATA: COMPANY REPORTS, MERRILL LYNCH & CO.



Now there's a new way to carry your most vital information with you anywhere—with Palm-size PCs powered by the **Microsoft Windows CE** operating system. While designed from the ground up to be the easiest

Is it possible to fit Windows in the palm of your hand?

and most intuitive palm-size device, Palm-size PCs maintain the power and familiarity of Windows.

You'll like the way Palm-size PCs keep you effortlessly up-to-date. Because of **Microsoft ActiveSync** technology, your Palm-size PC files stay continuously and automatically in synch with your desktop PC. Just connect a Palm-size PC to your computer, and it does the rest, updating your contacts, calendar, tasks, e-mail and notes. You can even download Web pages for convenient offline viewing.

If you know Windows, you can use a Palm-size PC immediately. And entering data is a cinch, whether you handwrite notes, or use the voice recorder or on-screen keyboard.

Whether your Windows-based world includes a network, a desktop PC, or a laptop, you'll want the palm-size unit that best connects with it all. Look for the logo that says "Powered by Microsoft Windows CE" to ensure secure access to every Windows-based device.

Palm-size PCs powered by Windows CE are available today from multiple hardware vendors. For a reseller near you or for more information about the companies that provide Palm-size PCs, go to www.microsoft.com/windowsce/ppc/.



www.microsoft.com : ppc : Windows CE

Microsoft

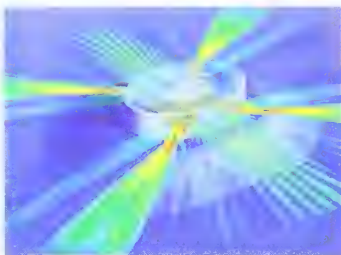
EDITED BY OTIS PORT

LASER FLASHES

FOLLOW THE BOUNCING LIGHT

NONCONFORMISTS, IT'S SAID, PREFER BOW TIES. IF SO, the shape that light traces in the latest semiconductor laser couldn't be more suitable. The bow-tie laser breaks almost all the rules. The laser is a disk, not a rod, and its light caroms around the inside of a curving periphery. In a normal laser, the light bounces back and forth between the straight ends of a semiconductor rod.

The disk laser was born more than a decade ago at Bell Laboratories. It was then hailed as the world's smallest laser: Hundreds could sit on a pinhead. But the micro-lasers weren't good for much. Hardly any light ever got out. Then inspiration struck Federico Capasso, head of semi-conductor physics re-



BOW-TIE LASER: It may help shrink fiber-optics systems

search. If the disk were shaped like an ellipse, light would almost never bounce twice at the same angle. So, sooner or later, light would strike the edge at a steep angle. Then it would drill through, not reflect back.

Still, the power output was disappointing—until the circle was squished more so the bouncing light formed a bow-tie pattern. The power coming out exploded a thousandfold. Intrigued, scientists at Yale University and Max Planck Institute of Physics helped figure out what was going on to optimize performance. Now, Capasso is working on prototypes that promise to shrink the size and power needs of tomorrow's fiber-optics systems.

SHARPER IMAGES FOR X-RAY PICTURES

FOR DECADES, X-RAY MICROSCOPES HAVE BEEN SHOWING details too small to see with the best optical systems. Yet researchers still peer into optical microscopes. That's because optical images are normally far clearer. Just magnifying tiny features isn't of much benefit if the image lacks contrast—like a grossly overexposed photo.

To sharpen X-ray pictures, University of Michigan researchers built a tabletop throttle for X-ray lasers. The gas-filled tube takes laser pulses and generates a coherent beam—meaning the pulses stay in step. In older X-ray microscopes, the pulses got jumbled, hurting image quality. But the Michigan team, headed by electrical engineer Henry C. Kapteyn, found a way to keep the pulses in sync—by adjusting the pressure of argon gas in the throttle. That affects the speed of the X-rays.

The setup is so simple, Kapteyn says, that virtually any research lab could duplicate it. By yearend, he expects dozens of labs to be using the technique to improve images of chemical and biological processes. □

ASPIRIN TAKES ON A NEW JOB: FIGHTING COLON CANCER

THE NEWEST HOPE FOR cancer treatment may be something as commonplace as aspirin. There has been a flurry of excitement in recent months about the discovery of several much more exotic compounds that seem to stop the spread of cancer in mice by cutting off a tumor's blood supply, essentially starving cancer cells to death (BW—Apr. 27). But in the latest issue of the journal *Cell*, researchers report that, in test-tube experiments, aspirin also can inhibit the growth of blood vessels in colon cancer.

Doctors have known for a few years that people who regularly take aspirin or oth-

er so-called nonsteroidal inflammatory drugs can lower their risk of colon cancer 40% to 60%. They believe aspirin targets an enzyme called COX-2, found in elevated levels in about 80% of cancer victims. A research team headed by Dr. Ray N. DuBois, a professor at Vanderbilt University, found that COX-2 secretes signals that encourage blood vessels to grow toward the cancer cells, bringing the blood oxygen needed to sustain them. Aspirin, they discovered, blocks this process. "It's really quite a surprising finding," says DuBois—surprising that *Cell* decided to speed up publication of the discovery. Further testing is being done in mice to see if aspirin will have the same effect outside the test tube, DuBois says. Catherine

INNOVATIONS

■ NASA wants to slick down your hair—after it has been trimmed off. Human hair, it seems, makes a great mop for cleaning up oil spills. Hairdresser Phillip A. McCrory wondered if it would work while watching a sea otter being rescued during the Exxon Valdez cleanup on TV. He figured that if sea otter hair could hold so much oil, why not human hair?



It turned out that human hair holds more. The intrigued researchers at the Huntsville (Ala.) operations Lab tests there recently showed that human hair can sop up a gallon of oil in just two minutes—versus hours for conventional techniques—and at a fraction of the cost. McCrory's company, BEPS Inc. in Madison, Wis., is now starting field tests.

■ Listening with your ears is the only way to hear many deaf people know. But also can listen with their bones. Sound waves travel through the skull and vibrate the inner ear. New bone-borne sound. The set has both a normal ear plus an oscillator for hearing-impaired people press against their heads.

According to Opentech Inc. in Lynbrook, N.J., the big advantage is that these sounds are not distorted by external amplification.

Announcing

MAXIMUM MILES

from Hyatt

Earn Up To Quadruple Miles At Hyatt
June 1 - August 31, 1998

With MAXIMUM MILES from Hyatt, you can earn triple miles with participating airline partners on every stay* from June 1 through August 31, 1998. Or when you charge your stays with the American Express® Card, you can earn quadruple miles – that's 2,000 miles per stay! To qualify, simply enroll in Gold Passport, Hyatt's worldwide frequent guest program, and stay two times at any of over 180 Hyatt Hotels and Resorts® worldwide. The more you stay, the more you can earn!

Participating Is Easy

- Enroll in Gold Passport and receive your membership account number to participate in MAXIMUM MILES from Hyatt
- Qualify by staying just two times June 1 through August 31, 1998 – you will be credited for all your stays during the promotion, beginning with your first qualifying stay
- Ask for the American Express Card "bonus" each time you charge your stay with the American Express Card
- Hyatt will automatically track your MAXIMUM MILES bonuses and send you the award for which you qualify after October 15, 1998

Gold Passport Membership

Your membership will begin with special privileges and complimentary benefits designed to enhance your Hyatt experience. Enroll now to see how membership makes a difference.

Here's Another Great Deal From Hyatt

Save up to 50% off the published room rates at select Hyatt Hotels in Asia from June 1 through September 15, 1998, and receive special discounted rates at other select Hyatt Hotels and Resorts worldwide. For information and reservations, please call 1-800-233-1234.

To enroll in Gold Passport
visit www.goldpassport.com or call 1-800-51 HYATT

For reservations: 1-800-233-1234

If you are already a Gold Passport member, you must register to participate in the promotion via www.goldpassport.com or by calling 1-800-51 HYATT.



Cards

Stay Just Two Times To Qualify

TO EARN TRIPLE MILES ON EACH STAY

- Present your Gold Passport card/account number and airline frequent flyer membership card/account number at check-in
- You will receive the standard 500 miles plus 1,000 bonus miles for a total of 1,500*

TO EARN QUADRUPLE MILES ON EACH STAY

- Present your Gold Passport card/account number and airline frequent flyer membership card/account number at check-in
- Charge your stay with the American Express Card and request the American Express Card "bonus" at check-in



You will receive the standard 500 miles plus 1,500 bonus miles for a total of 2,000

*participating in the MAXIMUM MILES from Hyatt promotion: Aeromexico, Alaska Airlines, American Airlines, British Airways, Continental Airlines, Delta Air Lines, Korean Air, Midwest Express Airlines, Northwest Airlines, Passages (Cathay Pacific Airways, Malaysia Airlines and Singapore Airlines), South African Airways, Thai Airways International, TWA, United Airlines and US Airways. Aeromexico Club Premier members choosing kilometers for their stays will receive 1,000 kilometers for every 500 miles/credits awarded. British Airways Executive Club U.K. members choosing Air Miles for their stays will receive 50 Air Miles for every 500 miles/credits awarded. The American Express Card "bonuses" are valid on all participating airlines except: American Airlines, British Airways and Northwest Airlines.

†If you must enroll in Gold Passport and record a minimum of two qualifying stays between June 1 and August 31, 1998. You must also provide your Gold Passport account number at time of reservation and check-in. Eligible rate and provide your airline frequent flyer number at check-in when choosing miles/credits. *Eligible rate is any hotel published room rate except: airline employee, travel agent industry, intercompany or Hyatt employee discount, permanent contract and hotel contract room rates. To receive the American Express Card "bonus", you must also charge your stay with the American Express Card and request the American Express Card at check-in. Gold Passport members must choose to receive only one of the following benefits for each stay: Gold Passport points or airline frequent flyer miles/credits in one of the participating airline programs. †Base miles/credits for your stays: The bonus miles/credits earned in this promotion include the 500 base miles/credits normally earned for each qualifying Hyatt stay in which miles/credits are chosen. All base miles/credits earned during this promotion will be posted to your airline account as you record eligible stays, subject to normal mileage posting procedures. In addition to the base miles/credits received, after October 15, 1998, you will receive your MAXIMUM MILES award certificate for the promotional bonus miles/credits for which you qualify. A stay is defined as one or more consecutive nights at Hyatt Hotels and Resorts worldwide; back-to-back stays at a single Hyatt property qualify as one stay. Members paying for multiple rooms will earn credit for one room only. In cases of double occupancy, only one member occupying the room may receive credit toward this promotion. Award stays do not qualify. Eligibility for miles/credits is subject to the terms and conditions of the chosen airline program. Award Certificate: A single award certificate indicating the total bonus miles/credits for which you qualify will be sent after October 15, 1998. Complete award terms and conditions will appear on the award certificate. Hyatt reserves the right to alter or withdraw this program at any time. This promotion is subject to the terms and conditions of the Gold Passport program. This promotion is void if prohibited by local law. Other restrictions may apply. Hyatt Hotels and Resorts encompasses hotels and resorts managed, franchised or operated by Hyatt Hotels Corporation or its affiliates and affiliates of Hyatt International Corporation. © 1998 Hyatt Corp. American Airlines is a registered trademark of American Airlines, Inc.

INSIDE BIG TOBACCO'S SECRET WAR ROOM

For years, a hush-hush committee of lawyers mapped the strategy that led to disaster

Early on the morning of Sept. 10, 1981, 13 of the tobacco industry's most powerful lawyers assembled in a conference room at the law firm Chadbourne & Parke, high above the Rockefeller Center skating rink in midtown Manhattan. Although they were at war in the marketplace, Philip Morris, R.J. Reynolds, Brown & Williamson Tobacco, Liggett Group, and Lorillard Tobacco each sent at least one attorney to the secret meeting. Also on hand were partners from some of the industry's most trusted outside law firms, including Shook, Hardy & Bacon and Jacob, Medinger & Finnegan.

The occasion was a gathering of the Tobacco Institute's Committee of Counsel—the high tribunal that critics say set the industry's legal, political, and public relations strategy for more than three decades. On this particular day, the main topic of discussion was especially sensitive: the Council for Tobacco Research's "special projects." These were the controversial scientific studies the industry-sponsored CTR produced in an alleged attempt to debunk the idea that smoking was a health hazard.

Lorillard General Counsel Arthur Stevens kicked off the session by complaining that because the same scientists repeatedly worked for CTR, they "will start to lose credibility for themselves and for us," according to minutes of the meeting taken by Francis K. Decker, an outside lawyer for Liggett. "He is concerned with the degree to which we make advocacy primary and science becomes secondary," Decker wrote.

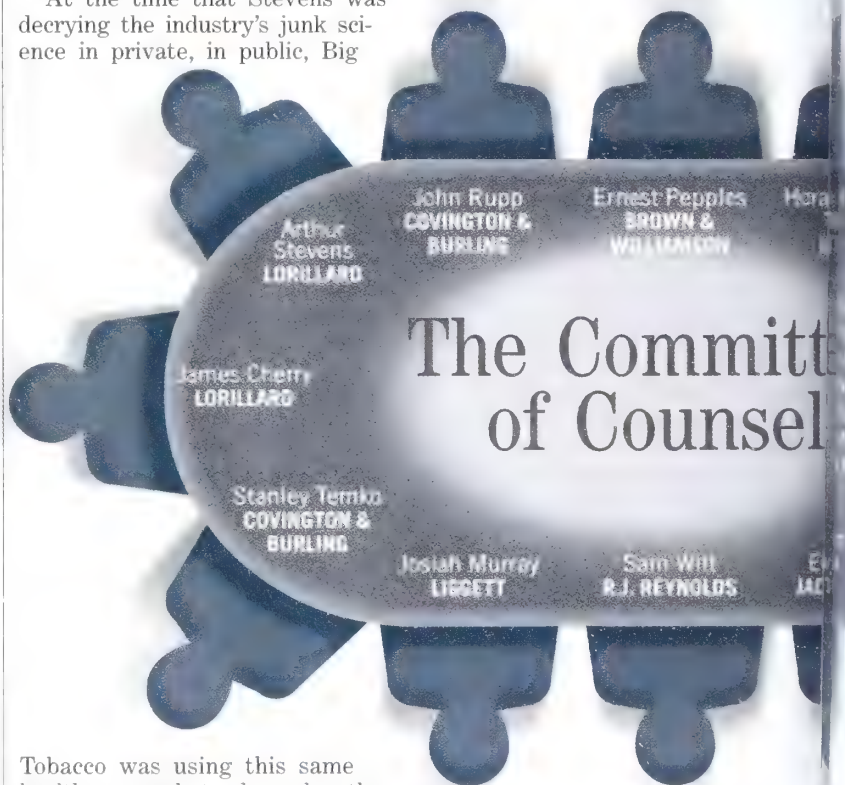
JUNK SCIENCE. But Edwin Jacob, a longtime industry outside counsel, said it was important to maintain ties with friendly researchers. "If you have a doctor, you have to keep him busy or he will lose interest," said Jacob, according to Decker's notes.

That didn't satisfy Stevens. "I understand there will be times when we need to get money into the hands of a researcher... but I would rather not create a project that does not make any

sense," he responded. When another outside lawyer declared that "[t]hese projects are not embarrassing to us," Stevens responded that he "is concerned if the science is not worth a damn." Stevens, Decker, and Jacob each declined repeated requests to comment for this story.

At the time that Stevens was decrying the industry's junk science in private, in public, Big

campaigns against local, state, and federal efforts to regulate tobacco. The industry also is accumulating that group may have played a key role in suppressing health research and concealing damaging internal industry documents. "The Committee of Counsel



Tobacco was using this same health research to downplay the risks of smoking. But such duplicity was typical of the Committee of Counsel, according to industry critics. A tightly knit group of battle-hardened litigators, it was the primary architect of the unyielding fight-and-deny strategy that turned Big Tobacco into such a national pariah.

Among other things, critics say, the committee told scientists what they could study, vetted cigarette advertising, directed the industry's scorched-earth litigation battles, and orchestrated the

ruled the industry. Their power was pervasive, deep, and longstanding. Michael V. Ciresi, the lead trial lawyer in Minnesota's recently settled lawsuit against the industry.

While the committee's aggressive defense tactics worked brilliantly for the industry is now paying an incredible price for that success. Not only is it facing hundreds of lawsuits, but the possibility of punitive legislation is a real possibility but the Justice Dept.

ing whether to bring conspiracy
s against the companies—appar-
ased in part on the committee's
t, says a source familiar with the
ration. Justice's inquiry received a
n April when Liggett Group Inc.
to cooperate with the agency.
l recently, almost nobody outside
ustry even knew the Committee
nseil existed. The group never
a public. Cigarette manufacturers
mentioned it. When a few refer-
to the Committee of Counsel sur-
a a trove of internal Brown &
son memos made public in 1994,
lic health community "had never
eard of them," says Action on
g & Health's John Banzhaf, who
n locked in combat with the in-
since 1967.

he recent release of thousands of

"The committee ... ruled the industry. Their power was pervasive, deep, and longstanding"

—MICHAEL V. CIRESI, *Lead trial lawyer in Minnesota's antitobacco suit*

ing of the industry's Scientific Research
Liaison Committee. "Lorillard's man-
agement is opposed to the total [i]ndus-
try future being in the hands of the
Committee of Counsel." Lorillard did
not comment on the document.

In court papers and public state-
ments, the cigarette companies and the
Tobacco Institute have consistently
maintained that everything the Com-
mittee of Counsel did was completely
legal. Keith Teel, a partner at Covington
& Burling in Washington, which repre-
sents the Tobacco Institute, notes that
groups roughly comparable to the com-
mittee exist in several indus-
tries and that it's permissi-
ble for lawyers from
competing companies to dis-

posed to do: represent clients vigorous-
ly. "The more unpopular the client, the
more they need lawyers. Lawyers have
an obligation not to shirk from that,"
this attorney says. Adds Philip Morris
spokesperson Michael York: "There has
not been a day over the past 40 years
that this industry has not been facing a
lawsuit by somebody somewhere."

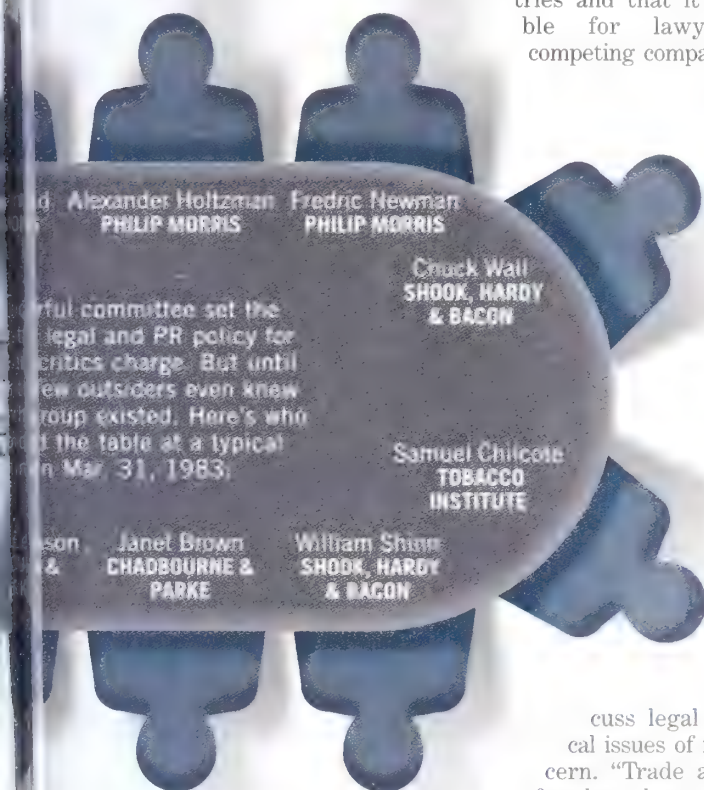
Representatives from RJR, Brown &
Williamson, Liggett, and the law firms
Shook, Hardy & Bacon and Chadbourne
& Parke declined to comment for this
story. Despite repeated attempts to con-
tact them, representatives at Lorillard,
Jacob Medinger, and Arnold & Porter
didn't return calls.

The roots of the Committee of Counsel
date back to around 1958, the year the
Tobacco Institute was founded. At the
time, the industry was facing its first
wave of serious legal attacks, which
prompted the general counsel of the then
six major companies (Brown &
Williamson later acquired American To-
bacco Co.) to meet regularly. Before be-
ing christened the Committee of Counsel
in the early 1970s, the group went by a
variety of names, including the Commit-
tee of Six, the Secret Six, and the Com-
mittee of General Counsel.

LOCKSTEP. Even before the advent of
modern, multibillion-dollar tort litigation,
the committee was a force to be reck-
oned with. In 1964, two British tobacco
executives, Phillip J. Rogers and Geof-
frey F. Todd, spent more than a month
studying how the U.S. tobacco industry
operated at the time. "This Committee is
extremely powerful, it determines the
high policy of the industry on all smoking
and health matters... and it reports di-
rectly to the Presidents," they wrote. It
is not clear who read this report or why
it was commissioned.

Although meetings varied in fre-
quency, they generally took place every
few weeks, say sources inside and out-
side the industry. While individual com-
panies frequently entered committee
meetings with differing views, they
rarely left that way. Critics say the
group was the principal forum in which
the companies hammered out their lock-
step position on key policy matters—a
unity that always made it much harder
for health groups to counterattack.

Most of the criticism directed at the
Committee of Counsel today is based
on the role that the group allegedly



ful committee set the
legal and PR policy for
entics charge. But until
few outsiders even knew
group existed. Here's who
t the table at a typical
n Mar. 31, 1983:

son, Janet Brown
& CHADBOURNE &
PARKE William Shinn
SHOOK, HARDY
& BACON

Samuel Chilcote
TOBACCO
INSTITUTE

Chuck Wall
SHOOK, HARDY
& BACON

Fredric Newman
PHILIP MORRIS

Alexander Holtzman
PHILIP MORRIS

previously secret industry doc-
provide an inside look at how
Committee of Counsel operated.
merges from a BUSINESS WEEK
tion is a picture of a group so
that even high-level executives
de to challenge it. "We have
licated" the scientific research
al management of the industry
lawyers," wrote Curtis H.
resident of Lorillard Tobacco,
written note from a 1978 meet-

cuss legal and politi-
cal issues of mutual con-
cern. "Trade associations
often have lawyers' commit-
tees. We don't think [the Com-
mittee of Counsel] is any different from
that," Teel says. "This is an industry
that for a long time has dealt with legal
and regulatory issues."

Both Teel and two other industry at-
torneys familiar with the committee say
they are not aware of the group ever
sanctioning document destruction or
misuse of the attorney-client privilege to
conceal damaging documents. All the
committee did, according to one tobacco
attorney, was what advocates are sup-

CEO Summit

The New Rules: Mastering the Challenges of the New Economy

America has witnessed an economic revolution. The result: a radically different economy in which the "digital industries" set the pace and old habits of business are replaced by new skills.

In September, *Business Week* will bring together today's most prominent business leaders to consider the challenges executives face in this transformed business world. These economic pioneers will relate practical and hard-won knowledge as they redefine economic theory and business practices for today's chief executive.

Join us at *The 1998 Business Week CEO Summit* and learn how to play – and win – by the new rules.

Presented in association with

THE BUSINESS ROUNDTABLE 



SANFORD WEILL
*Chairman & CEO,
Travelers Group*



RANDALL T. LIPP
*Chairman & CEO,
Eli Lilly*

SEPTEMBER 23-25, 1998

THE RENAISSANCE MAYFLOWER HOTEL

WASHINGTON, D.C.

SPONSORED BY

BAIN & COMPANY, INC.

EDS

MISSOURI DEPARTMENT OF ECONOMIC DEVELOPMENT

NOVELL

PEOPLESOFT, INC.

WITH SUPPORT FROM
WHARTON EXECUTIVE EDUCATION

produced with the cooperation of
CONGRESSIONAL QUARTERLY

Featured Speakers



DONALD FITES
Chairman & CEO,
Caterpillar;
Chairman,
Business Roundtable



JOHN CHAMBERS
Chairman & CEO,
Cisco Systems



ANTHEA DISNEY
Chairman & CEO,
News America
Publishing Group

TO REGISTER OR FOR MORE INFORMATION ON:

The Business Week CEO Summit, please contact Julie Terranova, Registration Manager
PHONE: 888-239-6878 • FAX: 212-512-6281 • E-MAIL: jterranova@businessweek.com
FAX ON DEMAND: 888-239-6878 Document #20

Attendance is limited to CEOs, Presidents, and Chairman of leading corporations.

The McGraw-Hill Companies



Legal Affairs

played in controlling the industry's scientific research. For example, many health advocates and plaintiffs' attorneys claim that the committee prevented scientists from investigating how to make cigarettes safer. That's largely because the committee was allegedly concerned that any discovery of safety improvements in cigarettes would prompt personal-injury attorneys to file suits charging that the changes should have been made earlier.

The industry has always denied these claims, but one of the newly available documents provides fodder for the other side. In an undated litigation memo on "Strategic and Tactical Considerations Concerning Ingredients," three RJR attorneys examined the legitimacy of claims by plaintiffs' lawyers that manufacturers failed to adequately test cigarette additives. One potentially damaging piece of evidence, the memo notes, is a document written by a Lorillard employee suggesting that "in 1984 the Committee of Counsel thwarted the industry scientists' desires to assure the safety of the product by testing ingredients adequately." RJR and the Tobacco Institute declined to comment on this document, arguing that any public remarks might jeopardize future attempts to claim that it is protected by attorney-client privilege. But one attorney affiliated with the industry, while refusing to discuss the content of the memo, says it was a draft and that an investigation into its allegations revealed that the committee never blocked ingredient testing.

"Lorillard's management is opposed to the total [i]ndustry future being in the hands of the Committee of Counsel"

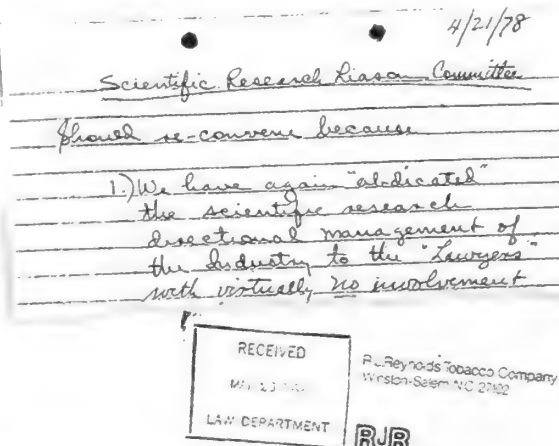
—CURTIS H. JUDGE, President of Lorillard Tobacco in a 1978 document

RECENTLY RELEASED DOCUMENTS SHOW THE COMMITTEE'S INNER WORKINGS

In addition to purportedly discouraging researchers from studying safety issues, critics claim that the committee played a key role in ensuring that any damning information industry scientists did happen to uncover was kept under wraps. New evidence that document destruction may have been a common practice is provided by the minutes of

the Committee of Counsel's meeting on Sept. 23, 1981, which were recorded by an in-house attorney at Brown & Williamson. At this gathering, the main topic of discussion was whether cigarette makers should give in to demands by the U.S. Health & Human Services Dept. to see a complete list of the casings, flavorings, and other ingredients in cigarettes.

Outside counselor Robert Northrip,



TO COMMITTEE OF COUNSEL

May 19, 1982

Listed below is the agenda for the meeting scheduled for May 26, at 10:00 A.M., in the offices of Jacob, Medinger & Finnegan.

1. Preparation for June 23 Discussion by Dinner Group of Industry Programs-----Chilcote/Witt
2. Dissolution of Cigarette Advertising Code, Inc.-----Witt
 - Contribution to the Fund for Fire Safety
3. 1981 Consent Decree-----Witt
4. "Self-Distinguishing" Update-----Rupp
5. Ingredients - Next Steps-----Dexco
6. Public Smoking - Next Steps-----Dexco

reflect a desire by R & D personnel to "test" ingredients and which document the policies which the Company has followed. A recent memo by a Lorillard employee (Alex Spears) to Dr. Hayes at RJRT suggests that in 1984 the Committee of Counsel thwarted the industry scientists' desires to assure the safety of the product by testing ingredients adequately.

verse results pertaining to a particular additive, the company control would enable the company to terminate the search, remove the additive, and destroy the data," he is quoted as saying. Citing attorney-client privilege, Northrip declined to comment on this document. A source affiliated with the industry says that there's no evidence that companies took Northrip's advice.

CANDID DISCUSSION. Another longstanding criticism of the tobacco industry's lawyers is that they allegedly misused the attorney-client privilege to conceal damaging information. This practice is candidly discussed in a 1968 memorandum to the Committee of Counsel from the Washington law firm of Arnold & Porter. Big Tobacco planned to commission a survey to prove people knew about the dangers of smoking. The industry intended to use the survey information to fight off Congressional efforts to strengthen warning labels on cigarettes.

In the memo, Arnold & Porter raises the discomfiting possibility that "should the results of the survey prove unfavorable," the survey might fall into the hands of the Federal Trade Commission. The law firm argues that this is minimal because the company doing the survey has agreed to "transmit to us every interview and every copy of the analysis." Thus, when it is completed, there will be nothing in the records of the survey takers] to substantiate the danger of a successful survey.

The danger of a successful survey would be reduced (though not entirely eliminated) if the survey were in an attorney's files." Arnold & Porter declined repeated requests to comment on the document. A source affiliated with the industry says that the survey was never conducted.

Documents such as these are likely to give the Justice Dept. more ammunition in its ongoing investigation of the industry. But however the inquiry unfolds, Big Tobacco already has paid a price for the committee's aggressiveness. In fact, the public and Congress are so outraged by cigarette marketing that it's unlikely any amount of immunity will buy them immunity from the allegedly illegal actions. That may be today's tobacco executives to wonder how they ended up so beholden to the Committee's questionable counsel.

By Mike France in New York

FREE TO BW SUBSCRIBERS!*

The Web site of the world's most widely read business publication



BW PLUS!

Business Week and online-only content, including: Best B-Schools; The Computer Room; Enterprise (for small business); Investors Central; and more

ARCHIVES

All Business Week domestic edition issues back to January, 1991. Fast free searches! A small payment is required only when you decide to view an article

CURRENT ISSUE

The complete contents of all domestic and international editions. Includes all graphics and tables, and selected photos

Plus, we often include longer versions of printed features and original material created exclusively for online readers posted on Thursday evening, well before the printed magazine hits newsstands

REGISTER BW CONTENTS

BW PLUS!

BW DAILY

ARCHIVES

CONTACT US

AD INFO

COVER STORY

No longer the world's most powerful man, Marc Andreessen is out to prove himself as a leader again

ADS AND RX'S

Why most enter and leave hypertension drugs outsell cheaper and safer ones

GROVE'S QUEST

In a Q&A, Intel's CEO tells why he's trading the daily grind for the big picture

THIS WEEK



YOUR MONEY

What's the best way to invest your money? Here's the answer

DAILY BRIEFING

The day's top news stories, market data, and more

FIND YOUR FUND

Find the mutual fund that's right for you

YOUR MONEY

Regular columnists provide in-depth coverage of investing and personal finance

DAILY BRIEFING

News flashes, Q&As, commentaries; market info from S&P MarketScope and S&P Personal Wealth; and much more

FIND YOUR FUND

Our mutual fund database has extensive performance and portfolio data, and Business Week's ratings on 4,000 funds. Updated monthly!

CAREER CENTER

We'll help top-notch talent find top-quality jobs, confidentially and free. And for employers, it's far better than want ads

COMPUTER BUYING GUIDE

Maven, our interactive guide, offers objective computer reviews and rankings based on tests performed by NSTL

TRAVEL CENTER

Meets all your travel needs: Reservations and tickets for flights, cars, and hotels. E-mail notification of low-fare deals. And much more!

*Go to www.businessweek.com, register, and enter a 9-digit code from your mailing label. **Plus:** If you would like to become a subscriber, you can register and subscribe on the Web site—and get *immediate* access to BW Online.

Most read. Best read. Worldwide.
www.businessweek.com



A special version of Business Week Online is available on AOL at Keyword: BW



BizLink

Unless, of course, you actually enjoy filling out forms.

Want advertiser information now, without having to fill out one of those pesky reader service cards? Connect with BizLink, Business Week's new electronic reader service fulfillment system. You'll get the information you need the way you want it—by fax, phone, mail, or e-mail. It's free, it's fast and nothing could be simpler. **Why wait?**

Access BizLink now:

www.businessweek.com/BizLink/

BusinessWeek

Most Read. Best Read. Worldwide.

And if you don't have an Internet connection,
just call 1-800-848-6708.

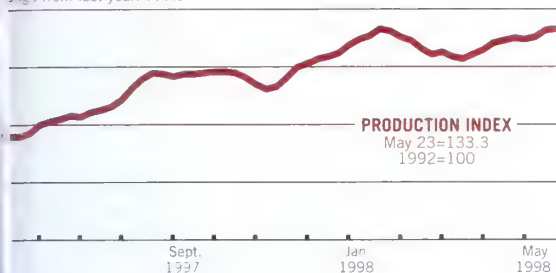
June 15, 1998

1 American General Insurance	10 Mississippi Department of Economic & Community Development	INTERNET ONLY	Petroleum
2 Charles Schwab	13 M.O.D.E.D., Missouri Department of Economic Development	18 American Century Investments	27 Debut Bank
2 Datek Online	14 The Principal Financial Group	AZERBAIJAN	28 Dillingham Construction
3 Defined Asset Funds SM Premier American Portfolio	11 Prudential Investments	Special Advertising Section	29 Global Securities
4 Flexi International Software	12 QAD Inc.	19 Arco	30 Golzari Holdings
5 GTE Internetworking	13 Roberts Express	20 Azercell	31 International Bank Azerbaijan
6 Inter-Continental Hotels	14 Rockwell Corporation	21 Azerelectromash	32 ISR Group of Companies
8 International Paper	15 SAS Institute, Inc.	22 Bakconditioner	33 KLM
7 Invesco	16 Trend Microsystems	23 Baku Hotel Company	34 Minaret Group
9 Lexus CPO	17 UUNET Technologies	24 Caspian Geophysical	35 Ministry of Communications
		25 Caspian Shipping Company	36 Mobil
		26 Chevron Overseas	37 Prisma Invest

Business Week Index

PRODUCTION INDEX

Change from last week: 0.1%
Change from last year: 7.4%



The production index was up fractionally in the week ended May 23, while the average index dipped 0.7%, to 132.9 from 133.9. After seasonal adjustment, electric power output, which has been steadily rising for the past six months, soared 4.8%, with a 10.8% increase in the west central region. Lumber production was also up and the rated capacity was at 98.4%. Lumber production posted a 2.2% increase. All other components were down.

FINANCIAL INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
PRICES (5/29) S&P 500	1090.82	1110.47	28.6
GOVERNMENT BOND YIELD, Aaa (5/29)	6.62%	6.69%	-13.4
MONEY SUPPLY, M2 (5/18) billions	\$4,157.5	\$4,156.4	6.9
UNEMPLOYMENT CLAIMS (5/23) thous	312	314	-1.9
CREDIT APPLICATIONS, PURCHASE (5/29)	259.8	248.1	38.8
CREDIT APPLICATIONS, REFINANCE (5/29)	1,174.3	1,049.0	297.3

Sources: Standard & Poor's, Moody's, Federal Reserve, Labor Dept., Mortgage Bankers Assn. (Index: March 16, 1990=100)

INTEREST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
FUNDS (6/2)	5.50%	5.62%	5.42%
GOVERNMENT BOND (6/2) 3-month	5.50	5.50	5.67
RATES OF DEPOSIT (6/3) 3-month	5.59	5.59	5.67
MORTGAGE (5/29) 30-year	7.12	7.15	8.12
FIXED RATE MORTGAGE (5/29) one-year	5.78	5.79	6.06
LIBOR (5/29)	8.50	8.50	8.50

Sources: Federal Reserve, HSH Associates, Bloomberg Financial Markets

1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

THE WEEK AHEAD

WHOLESALE INVENTORIES

June 9, 10 a.m. EDT ▶ The Commerce Dept.'s report on wholesale trade inventories is normally a minor report, but the report on distributors' inventories in the first quarter turned some attention toward the data. Stock levels grew by an average 0.5% in each month of the first quarter, adding to a conjecture that imports for a large chunk of the record accumulation of last quarter.

RETAIL SALES

June 11, 8:30 a.m. EDT ▶ Retail sales probably increased a modest 0.3% in May, above the median forecast of economists surveyed by Standard & Poor's MMS, a

division of The McGraw-Hill Companies. Excluding motor vehicles, sales likely rose 0.4% last month. In April, both total sales and nonauto buying increased a solid 0.5%. April sales were helped by more seasonal weather and a late Easter. Economists are looking for weaker growth in consumer spending to usher in a slowdown in overall economic activity.

PRODUCER PRICE INDEX

Friday, June 12, 8:30 a.m. EDT ▶ Producer prices of finished goods likely edged up a small 0.1% in May. Total prices advanced by 0.2% in April, the largest gain since September. Excluding the volatile food and energy sectors, prices probably also

increased by 0.1% last month, on top of a 0.2% rise in April. A spike in tobacco prices led the April gain in producer prices. Even so, overall prices are down 1.6% from a year ago.

BUSINESS INVENTORIES

Friday, June 12, 10 a.m. EDT ▶ The S&P MMS survey forecasts that inventories held by manufacturers, wholesalers, and retailers grew by 0.3% in April. If so, that would be a significant slowdown in stockpiling. Inventories rose 0.7% in February and another 0.5% in March. Business sales probably increased 0.5% in April, after advancing 0.9% in February and 0.6% in March.

PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (5/30) thous. of net tons	2,208	2,160	3.2
AUTOS (5/30) units	98,437	117,632	-5.1
TRUCKS (5/30) units	116,969	131,589	8.0
ELECTRIC POWER (5/30) millions of kilowatt-hrs.	64,258	64,533	10.7
CRUDE-OIL REFINING (5/30) thous. of bbl./day	15,532	15,389	2.1
COAL (5/23) thous. of net tons	20,723	21,341	-5.0
LUMBER (5/23) millions of ft.	480.3	467.6	-4.0
RAIL FREIGHT (5/23) billions of ton-miles	27.2	27.4	1.9

Sources: American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, American Petroleum Institute, Energy Dept., WWPAA, SFPAA, Association of American Railroads

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (6/3) \$/troy oz.	292.400	292.750	-14.4
STEEL SCRAP (6/2) #1 heavy, \$/ton	135.50	135.50	0.7
COPPER (5/29) ¢/lb.	79.4	78.6	-34.1
ALUMINUM (5/29) ¢/lb.	65.3	65.8	-17.1
COTTON (5/30) strict low middling 1-1/16 in., ¢/lb.	67.71	65.53	-2.9
OIL (6/2) \$/bbl.	14.55	14.67	-27.1
CRB FOODSTUFFS (6/2) 1967=100	238.37	239.11	11.1
CRB RAW INDUSTRIALS (6/2) 1967=100	304.93	304.51	-9.8

Sources: London Wednesday final setting, Chicago market, Metals Week, Memphis market, NYMEX, Commodity Research Bureau

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (6/3)	138.36	137.50	116.30
GERMAN MARK (6/3)	1.77	1.78	1.73
BRITISH POUND (6/3)	1.64	1.63	1.63
FRENCH FRANC (6/3)	5.94	5.98	5.84
ITALIAN LIRA (6/3)	1743.5	1758.1	1699.0
CANADIAN DOLLAR (6/3)	1.45	1.46	1.38
MEXICAN PESO (6/3)	8.788	8.870	7.919
TRADE-WEIGHTED DOLLAR INDEX (6/3)	112.0	112.2	103.9

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars. Trade-weighted dollar via J.P. Morgan

Index to Companies

This index gives the starting page for a story or feature with a significant reference to a company. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

A

ABKB/LaSalle Securities 98
ABN AMRO 100
Acuity 126
Adidas 4
Advanced Fiber 92
Advanced Health (ADVH) 114
Aetna (AET) 68
Ahold 4, 100
Aliant Communications (ALNT) 88
Alpine Management & Research 98
Amazon.com (AMZN) 90, 115, 128
American Century-20th Century Ultra Investors 108
American Home Products (AHP) 53
American International Group (AIG) 88
America Online (AOL) 123, 126
Amertech (AIT) 88
AMG Data Services 98, 108
Amgen (AMGN) 94
Amoco (AN) 86
Anheuser-Busch (BUD) 66, 86
Antec 108
Apple Computer (AAPL) 10
Arbor Software (ARSW) 48
Arco (ARC) 53
Artisan International Fund 108
Asensio 96
AT&T (T) 51, 53, 115
Ayudha Life 100

B

BankAmerica (BAC) 88, 123
BankBoston (BKB) 123
Bank of New York (BK) 80
Banning Asset Management 100
Bay Apartment Communities (BYA) 99
Bed Bath & Beyond (BBBY) 108
Bell Atlantic (BEL) 51
Bell Laboratories 132
BellSouth (BLS) 115
Bendix 22
BEPS 132
Berger Select 108
Bertelsmann 60
Bimantara Citra 56
Biotechnology Value Fund 94
Biotime 96
Blackrock Financial Management 106
Blair (William) 123
Blue Cross & Blue Shield 68
BMC Software 90
Boeing (BA) 10
Brazos/JMIC Micro Cap Growth Fund 108
British Sky Broadcasting (NWS) 60
British Steel 100
British Telecommunications (BT) 60
Brown & Williamson Tobacco 134
Burnham Securities 53
Burnhous 22

C

Cable & Wireless (CWP) 60
Cadence Design Systems 90
Canal Plus 60
CarrAmerica Realty (CRE) 99
Carrefour 100

Catellus Development (CDX) 98

CBS (CBS) 66
CD Now 90
Centocor (CNTO) 94
Cereal Partners Worldwide 114
Chevron (CHV) 86
ChipSoft 123
Chromatics Color Sciences 96
Chrysler (C) 53, 58, 76, 89, 108
CIBC Oppenheimer 94, 111
Ciena (CIEN) 53
Cisco Systems (CSCO) 10, 42, 53
Citicorp (CCI) 4
CITIC Pacific 104
Clarian Partners 96
CNNFN 123
Coca-Cola (KO) 86
Cohen & Steers Realty Shares 98
COLT Telecom (COLTY) 106
Columbia/HCA Healthcare (COL) 88, 107
Comcast (CMCSA) 50
Comdial 90
Compag Computer (CPQ) 26, 90, 128
Computer Associates (CA) 90
Computer Learning (CLCX) 96
Compuware 90
Conseco (CNC) 86
Credit Suisse First Boston 100
Crescent Real Estate (CEI) 98
CSM Forecasting 75

D

Daihatsu 58
Daimler Benz (DAI) 42, 89
Dealaday.com 115
Deerfield Management 94
Dell Computer (DELL) 10
Deloitte & Touche 68
Delphi Management 86
Delta Air Lines (DAL) 106
Deutsche Morgan Grenfell 100
Deutsche Telekom 56, 60
Digital Equipment (DEC) 26, 46
Donaldson Lufkin & Jenrette 114
Dresdner Kleinwort Benson 128
Dreyfus 106

E

Eaton Vance (EV) 88
Edwards (A.G.) 88
Elcoteq 42
Elder-Beerman 108
Electricidade de Portugal 100
Elektra 100
Equity Office Properties Trust (EQP) 99
Equity Residential Properties Trust (EQR) 99
ESG Re (ESREF) 86
European Investors 98
Excel Legacy 98
Excite 123
Express Scripts (ESRX) 88

F

Fannie Mae 86
Federal Express (FDX) 10, 100
Federated International Small Company B 108
Finast 4
First Call 35, 90
Firsthand 90, 92
First Tier Partners 94
Flash Communications 126
Fleming (Robert) 100

Ford (F) 53, 58, 75, 76

Forrester Research (FORR) 123
FPA Capital Fund 86
FPA Medical Management (FPAM) 114
France Telecom 60
Fred the Furrier 115
Freeport McMoRan Copper & Gold (FCX) 56
Fujitsu 26

G

Gartner Group (GART) 51
Gemala Group 56
General Electric (GE) 50, 56, 86
General Mills (GIS) 114
General Motors (GM) 53, 75, 76
General Re (GRN) 86
Giant Food 4
Gillette 38
Gilman & Cioia (GTAX) 96
Glaxo Wellcome (GLX) 56
Goldman Sachs 42, 100, 104
Green Street Advisors 99
Group Danone 100
GTE (GTE) 68

H

Harmonic Lightwaves (HLIT) 108
Hefel Broadcasting (HBCCA) 88
Hewlett-Packard (HWP) 26, 128
Hilton Hotels (HLT) 50
Hino Motor 58
Honda (HMC) 53, 58, 75
Horton (D.R.) (DHI) 86
Host Marriott (HMT) 98
Houlihan Lokey Howard & Zukin 88, 89
Household International 80
HSBC Securities 42
HSN 120
Hughes Electronics (GMH) 56
Humana (HUM) 88
Hutchinson Whampoa 104
Hyatt 56
Hyundai 56

I

IAI Value Fund 108
IBM (IBM) 26, 87, 126
IDEA 100
Immobilia Urbis 100
ING Barings 100
Intel (INTC) 46, 90, 92
Intergraph (INGR) 46
International Data 48, 128
Intertel 90
Intuit (INTU) 123
Invesco 100
IPC Holdings (IPCRF) 86, 88

J

Jardine Fleming Securities 38
Jefferies 38
John Hancock Global Technology Fund 90
Jones (Edward) 51

K

Kaiser Foundation Health Plan 68
Key Asset Management (KEY) 87
Kirch Group 60

L

Lennar (LEN) 86
Level 3 Communications (LVLT) 51
Lexington Troika Russia Fund 108
Liberty Financial (L) 115

Liggett Group 134

Linens 'n Things (LIN) 108
Liz Claiborne (LIZ) 108
Longleaf Partners Realty Fund (LRLX) 98
Loomis Sayles 106
Lorillard 134
Lukos 100

M

Macy's (FD) 115
Marsico Focus 108
Massachusetts Financial Services 90, 106
Mattel (MAT) 10
McGraw-Hill (MHP) 141
MCI Communications (MCIC) 51, 60
Medical Mutual of Ohio 68
MedPartners (MDM) 68, 114
Mercedes-Benz (DAI) 58
Merck (MRK) 94
Merrill Lynch (MER) 50, 53, 56, 86
Microsoft (MSFT) 10, 46, 48, 50, 128
Mirabilis 126
Mitsubishi 26
Mitsubishi Materials 56
Mitsui 56
Mobil (MOB) 86
Monsanto (MTC) 53
Montgomery Global Long-Short A 108
Morgan (J.P.) (JPM) 42, 100
Morgan Stanley Dean Witter (MWD) 30, 75, 86
Morningstar (MSTR) 88, 108
Motorola (MOT) 68, 87
MPath 128
Multimedia Games 96
Munder Capital Management
NetNet Fund 90

N

NationsBanc Montgomery Securities (NB) 48
NationsBank (NB) 88, 123
NBA 120
NBC (GE) 66
Nestle 100, 114
Netscape Communications (NSCP) 126
New York Life Insurance 68
Nextrend 76
Nike (NKE) 4, 108
Nintendo 128
Nippon Telegraph & Telephone 100
Nokia 108
Nomura Securities 56, 106
NovaCare (NOV) 88
Novartis (NVTST) 4
Novell (NOVL) 48
NPS Pharmaceuticals (NPSP) 94
N2K 90
Nucor (NUE) 86
Nuveen (John) 106, 88

O

Oak Industries (OAK) 108
Odyssey Ventures 128
Olstein Financial Alert Fund 114
1-800-Fowers 115
Opentec USA 132
Oppenheimer Convertible Securities Fund 53
Oppenheimer Real Asset Fund 108
Oregon Steel Mills (OS) 86

Organogenesis (ORG) 94
Orlando Magic 128
Overpriced Stock Service 96

P

PacificCare Health Systems (PHSYA) 68
Pacific Investment Management 106
Paiton Energy 56
PanAgora Asset 100
Parametric 90
Parker Hannifin (PH) 68
Parsons Technology 115
Pathnet 108
Penn State Geisinger Health System 68
Pfizer (PFE) 94
Philip Morris (MO) 134
Pimco Innovation Fund (PIVAX) 90
PMC Sierra 90, 92
PNC Bank (PNC) 86
Pogo Producing (PPP) 107
Polaris Capital 100
Polaroid (PRD) 96
Price Waterhouse 68
Prism Decision Economics 44
Private Healthcare Systems 68
Protein Design Labs (PDLI) 94
Prudential Securities 98, 111

Q

Quigley (QGLY) 96
Qwest Communications (QWST) 51

R

Radica Games (RADAF) 96
Reebok (RBK) 114
Riggs National (RIGS) 106
Riley Capital Research 114
R.J. Reynolds (RN) 134
Robertson Stephens Information Age 90
Roche Holding 4
Rochester Gas & Electric (RGS) 88

S

SABRE Group 115
Salomon Smith Barney (TRV) 38, 42, 44, 100, 111
SAP 42
SBC Communications (SBC) 88
SBC Warburg 38
Schooner Asset Management 106
Seagram (VO) 53, 120
Security Capital Pacific Trust (PTR) 99
Sega 128
Siemens 42, 56
Singer (SEW) 96
SLH (SLH) 96
SLM Holdings (SLM) 86
Smith Breeden Associates 106
SONUS Pharmaceuticals (SNUS) 96
Sony (SNE) 126, 128
Source Media (SRCM) 96
Southern California Gas 10
Southern Pacific 53
Spare Kaplan Bischof 114
Sprint (FON) 51
St. Paul (SPC) 86, 88
Standard & Poor's (MHP) 35, 41, 86, 94, 141
Starwood Hotels & Resorts (HOT) 98
Stop & Shop 4
Streamline 115

Strong Corporate Bond 10
Suez Lyonnaise Des Eaux
Sun Microsystems (SUNW)
Superior Industries (SUP)
Swiss American Securities
Synaptic (SNAP) 94

T

Tatnef 100
Taubman Centers (TCO)
Technology Value Fund 9
Tele-Communications (TC)
Telebras 100
Telecom Argentina 100
Telecom Italia 100
Telefonica 60
Telefonos de Mexico 100
Telepizza 100
Tellabs (TLAB) 53, 92
Texaco (TX) 86
Thames Water 56
Think New Ideas 96
Third Avenue High-Yield 12
Time Warner (TWX) 53
Toil Brothers (TOL) 86
Toshiba 26
Total Access
Communications 100
Toyota (TOYDY) 53, 58
Toys 'R' Us (TOY) 86
Transamerica (TA) 86, 1
Travelers Group (TRV) 4
T. Rowe Price 88
Turbodyne 96
Turner Broadcasting (TVB)
TV Azteca 100
Tyco International (TYC)

U

Unilever 100
Union Pacific (UNP) 53
United Healthcare (UNH)
United Illuminating (UIL)
United Technologies (UT)
USA Networks (USAI) 1
U.S. Surgical (USS) 88
USX-Marathon (MRO) 8
UUNET 60

V

Van Eck Global Asset Management 100
Vanguard Group 106
Viacom (VIA.B) 120
Victory Value Fund 86
Vishay Intertechnology
Vitesse 92
Vontobel U.S. Value Fund (VUSVX) 86
Vornado Realty Trust 9
Vstream 10

W

Waddell & Reed International Growth B 108
Walt Disney (DIS) 50
Waste Management (WM)
Weitz Hickory 108
Wells Fargo (WFCCP) 1
WorldCom (WCOM) 510

Y

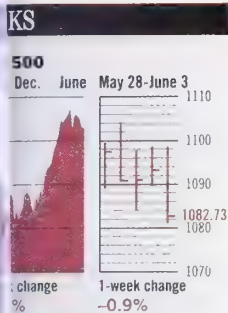
Yahoo! (YHOO) 86, 141

Z

Zurich Insurance 100

Business Week (ISSN 0007-7135) published weekly, except for one week in August, by The McGraw-Hill Companies, Inc. Executive, Editorial, Circulation, and Advertising departments are located at 1221 Avenue of the Americas, New York, N.Y. 10020. U.S. subscriber rate \$54 per year, plus \$69/year. Periodicals postage paid at New York, N.Y., and at additional mailing offices. Mail at Montreal, P.Q. Canada Post International Publications Mail Product Sales Agreement No. 9055. Postmaster: Send address changes to BUSINESS WEEK, P.O. Box 430, Hightstown, NJ 08520.

Investment Figures of the Week



SENTARY
Appointing week in the financial markets, which fallen over 400 points tracking 9200 on May 29. Dow Jones industrial gained on May 28 and but was otherwise with a 70-point decline 29, and further set- June 2 and again on when the blue-chip after fell 87 points. Con- out profits at Intel Corp. computer stocks on June at same day, a \$2 bil- ernment bond sale in caused a decline in the

U.S. MARKETS	Latest	% change Week	% change Year
Dow Jones Industrials	8803.8	-1.5	21.1
NASDAQ Combined Composite	1742.3	-2.2	26.3
S&P MidCap 400	353.7	-0.4	26.6
S&P SmallCap 600	188.0	-0.2	20.2
S&P SuperComposite 1500	231.1	-0.8	28.3

SECTORS	Latest	% change Week	% change Year
Bloomberg Information Age	324.2	-3.2	27.4
S&P Financials	131.5	0.2	38.0
S&P Utilities	244.0	5.2	27.2
PSE Technology	322.2	-3.3	19.0

FOREIGN MARKETS	Latest	% change Week	% change Year
London (FT-SE 100)	5898.4	0.5	29.4
Frankfurt (DAX)	5613.8	2.2	53.3
Tokyo (NIKKEI 225)	15,347.0	-2.0	-25.5
Hong Kong (Hang Seng)	8819.2	-1.8	-40.5
Toronto (TSE 300)	7493.2	-0.7	16.6
Mexico City (IPC)	4455.2	-0.6	8.1

FUNDAMENTALS	Latest	Week ago	Year ago
S&P 500 Dividend Yield	1.42%	1.42%	1.76%
S&P 500 P/E Ratio (Last 12 mos.)	26.0	26.0	21.4
S&P 500 P/E Ratio (Next 12 mos.)*	21.1	21.3	17.5
First Call Earnings Revision*	-0.60%	-0.63%	-1.44%

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 200-day average	1003.8	999.7	Positive
Stocks above 200-day average	49.0%	50.0%	Neutral
Options: Put/call ratio	0.61	0.60	Neutral
Insiders: Vickers Sell/buy ratio	2.72	2.71	Negative

Data: Bloomberg Financial Markets; *First Call Corp.

BEST-PERFORMING GROUPS	Last month %	Last 12 months %
Automobiles	19.4	Specialty Appar. Retailers 105.5
Genl. Merchandise Chains	9.4	Automobiles 80.5
Drug Chains	8.9	Broadcasting 75.2
Housewares	5.5	Homebuilding 74.5
Specialty Retailers	5.3	Personal Loans 70.7

WORST-PERFORMING GROUPS	Last month %	Last 12 months %
Oil & Gas Drilling	-23.2	Metals -41.7
Semiconductors	-18.5	Gold Mining -27.2
Gold Mining	-15.8	Shoes -19.1
Oil-Well Equip. & Svcs.	-14.9	Oil Exploration & Prod. -18.7
Oil Exploration & Prod.	-14.4	Photography/Imaging -17.9

BLOOMBERG MONEY FLOW ANALYSIS

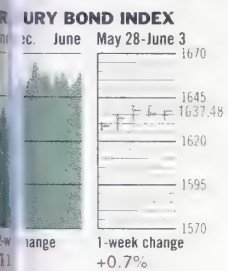
Rebound ahead? Stocks with most significant buying on price weakness

	Price	1-month change
America Online	77 3/8	-11 5/8
BankAmerica	82 1/2	-4
IBM	115 9/16	-1 1/16
Ascend Communications	41 1/2	-1 1/2
AT&T	58 11/16	-3 3/8
H.F. Ahmanson	75 15/16	-1 3/16

Decline ahead? Stocks with most significant selling on price strength

	Price	1-month change
WorldCom	44 13/16	1 11/16
Cisco Systems	76 7/16	1 1/2
L.M. Ericsson-ADR	28 1/4	1 31/32
Abbott Laboratories	36 9/16	5/16
American Home Products	48	1 1/16
Travelers Group	63 7/8	2

EST RATES



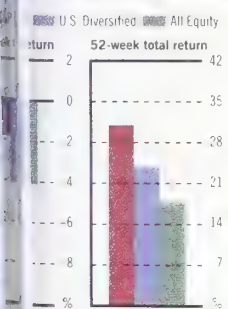
KEY RATES	Latest week %	Week ago %	Year ago %
MONEY MARKET FUNDS	5.10	5.10	5.15
90-DAY TREASURY BILLS	5.10	5.09	5.09
6-MONTH BANK CDS	5.07	5.08	5.22
1-YEAR TREASURY BILLS	5.40	5.41	5.77
10-YEAR TREASURY NOTES	5.55	5.56	6.62
30-YEAR TREASURY BONDS	5.78	5.83	6.88
LONG-TERM AA INDUSTRIALS	6.36	6.41	7.39
LONG-TERM BBB INDUSTRIALS	6.80	6.85	7.80
LONG-TERM AA TELEPHONES	6.62	6.69	7.64

BLOOMBERG MUNI YIELD EQUIVALENTS

Taxable equivalent yields on AAA-rated, tax-exempt municipal bonds, assuming a 31% federal tax rate.

	10-yr. bond Latest week	10-yr. bond Last week	30-yr. bond Latest week	30-yr. bond Last week
GENERAL OBLIGATIONS	4.44%	4.45%	4.97%	4.98%
PERCENT OF TREASURIES	80.00	79.88	85.95	85.28
TAXABLE EQUIVALENT	6.43	6.45	7.20	7.22
INSURED REVENUE BONDS	4.55	4.57	5.15	5.17
PERCENT OF TREASURIES	81.98	82.03	89.06	88.53
TAXABLE EQUIVALENT	6.59	6.62	7.46	7.49

L FUNDS



EQUITY FUNDS

Leaders	Four-week total return %	Laggards	Four-week total return %
IAI Value	24.6	Lexington Troika Russia	-39.5
IAI Balanced	6.7	U.S. Global Investors Gold	-23.6
Prudent Bear	5.8	Vontobel Eastern Europ. Eq.	-21.6
Wright EquiFd.-Belg./Lux.	5.2	Invesco Asian Growth	-19.0
Fidelity Germany	4.3	Glenmede Emerging Markets	-18.3

Leaders	52-week total return %	Laggards	52-week total return %
FMI Focus	66.2	Matthews Korea I	-65.8
Scudder Greater Europe Gr.	60.3	U.S. Global Investors Gold	-61.8
Fidelity Select Brokerage	59.0	Lex. Crosby Sm. Cap Asia	-61.3
Icon South Europe Region	56.8	Morg. Stan. Inst. Asia Eq. A	-59.8
IAI Value	55.8	Morgan Stan. Asian Grth. C	-59.6

EQUITY FUND CATEGORIES

Leaders	Four-week total return %	Laggards	Four-week total return %
Utilities	-0.6	Precious Metals	-15.1
Europe	-0.7	Pacific/Asia ex-Japan	-14.5
Domestic Hybrid	-1.4	Diversified Emerging Mkts.	-14.2
International Hybrid	-1.7	Latin America	-13.5
Foreign	-2.0	Diversified Pacific/Asia	-10.2

Leaders	52-week total return %	Laggards	52-week total return %
Financial	40.1	Pacific/Asia ex-Japan	-47.8
Europe	36.1	Diversified Pacific/Asia	-38.4
Communications	33.6	Precious Metals	-36.5
Large-cap Growth	28.2	Japan	-25.3
Utilities	28.1	Diversified Emerging Mkts.	-24.3

of market close Wednesday, June 3, 1998, unless otherwise indicated. Industry S&P 500 companies only. Fundamentals, technical indicators, Bloomberg money flow analysis, and mutual fund returns are as of June 2. For a more detailed explanation, write to us or E-mail figures@businessweek.com. NA=Not available **Vanguard Index 500 Fund

RETHINK THE ASIAN BAILOUT

Americans gasping up at \$1 a gallon and living the good life may not yet have noticed, but a financial fire is burning through Asia. Its intense heat is scorching Russia and Latin America. The U.S. is already feeling the effects. Profits and pricing power for American corporations are under pressure from the crisis, and this threatens the strength of the stock market. This wasn't supposed to happen. A year ago, the International Monetary Fund and the U.S. Treasury mounted massive bailouts and promised results. What went wrong?

Plenty. First, the IMF misread the situation in Asia and acted as if the problem were public profligacy. It insisted on high interest rates, austerity, and currency devaluation: precisely the wrong policies. Take South Korea. Today, its gross domestic product is shrinking at a 4% annual rate. A year ago, it was growing at 6%. With a high savings rate and conservative fiscal policy, its public finances were in good shape.

Korea's problem was private debt. Banks and corporations borrowed short-term to finance long-term investments. That's a classic banking no-no—but it didn't faze the Japanese, European, and American bankers who provided the money. Korean banks also borrowed in dollars and lent in won, without hedging: another high-risk mistake that should not have been lost on "sophisticated" Western and Japanese bankers. The Koreans invested too much too fast. They didn't have the underlying profits to pay back the loans. But foreign bankers didn't care, or at least, they didn't insist on seeing consolidated balance sheets, a basic banking procedure.

Korea started coming apart in 1995, when Japan, with U.S. Treasury encouragement, devalued the yen. That made Korean goods less competitive and put pressure on the won. Then the semiconductor market collapsed, hurting exports. A run on the Thai baht eventually hit the won. Bank credit dried up. Korea needed help—but it got the wrong kind.

The IMF marshaled a \$57 billion rescue using its own resources, World Bank funds, and government money from the U.S., Japan, and Europe. In return, the IMF demanded that Korean interest rates be hiked and government spending cut. This was supposed to generate investor confidence. It didn't. Korea's economy tanked. Ten months later, the whole

Pacific Rim is sinking. In the first quarter, Indonesia's economy shrank by 8.5%, Thailand's by 6%, Hong Kong's and Malaysia's by 1.8%. The bailout has been a disaster.

Global capital markets in the 1990s are dominated by mostly private flows to mostly private banks and corporations. Asia's financial problems are corporate, not governmental, and require a private solution between borrowers and lenders. Instead, the IMF handed a huge war chest to Asian governments. Foreign banks—knowing they would be bailed out if they have always been—did little. The IMF should have insisted that foreign banks take a sizable hit from the bailout and renegotiate their short-term dollar loans. Or it should have done nothing and let the markets do the dirty work.

The brutal truth is that there are two kinds of capital: bank capital and market capital, such as stocks and bonds. Bank investors who put money into Asian stocks have been severely disciplined by the markets. Bangkok, for example, dropped 78%, to an 11-year low. But banks have gotten away unscathed. When pressured six months after the Asian crisis to roll over their private loans, the banks persuaded the IMF to transform them into national obligations. No penalty for the banks.

What Asia needs is not so much a lender of last resort as a liquidator of last resort. It should be an international liquidator, the Resolution Trust Corp., which liquidated U.S. savings and loan institutions in the 1980s. Unless a liquidator appears soon, there is a real risk of financial meltdown. Japan has been stuck in recession for seven years and is in a dangerous deflationary spiral. The rest of Asia will follow. There is no way the IMF can launch yet another conventional bailout. Nor should Treasury Secretary Robert Rubin urge another round of the kind of yen depreciation that intensified the Asian crisis in the first place.

Instead, the IMF must renegotiate agreements with Asian nations, lowering interest and permitting more growth. More important, the IMF must recognize that markets have a claim. Government money is a fraction of private flows. Neither the IMF nor the U.S. Treasury should bail out private capital. Equity and bond investors are already subject to market discipline. Banks can no longer be permitted to avoid it.

WHERE HAVE ALL THE PROFITS GONE?

What is missing from this picture? An economy that grew at 4.8% in the first quarter, unemployment down to 4.3%, and inflation that is barely visible. The answer is profits. Amid the good news, one grim detail is that, for the economy as a whole, profit growth has all but disappeared.

No wonder so many conversations at weekend barbecues turn to whether or not the stock market is too high. Who knows for sure? But BUSINESS WEEK explains the case for value investing in its Midyear Investment Outlook (page 84). One

trend is clear: Much of the bull market has been concentrated in the Nifty 50 or high-flying Internet stocks. The price-earnings ratio for the big multinationals that comprise the indexes is 24. The p-e for Yahoo! Inc. is 235. Compare with the "unnifty 450," whose p-e is only 19. So far, the Standard & Poor's 500-stock index is up 12.4%, compared with 4.2% for the SmallCap 600 and 6.4% for the Midcap 400.

Perhaps it's time to analyze the family portfolio—where the burgers are done.

June 22



3 9042 04587182 6

Businessweek

SPECIAL REPORT ON SMALL BUSINESS
ENTERPRISE
Savings Opposite Page 107

June 22, 1998

A PUBLICATION OF THE MCGRAW-HILL COMPANIES

\$3.95

Profit
squeeze

What
companies
will do

FTC
Intel

it's
back



Corporate
loyalty

back-
of



China
and the
U.S.

hope for a
partnership?

Our **ANNUAL REPORT** on
Information Technology

doing business in the internet age

PAGE 121

.commerce

BURLINGAME PUBLIC LIBRARY
480 PRIMROSE RD
BURLINGAME CA 94010-4010

0118 94010
#BXBGDD**5-DIGIT
4802 1056111600 JAN99 102 0118

BURLINGAME

JUN 12 1998

LIBRARY

Internet: www.businessweek.com America Online: Keyword: BW





Today,
business uses technology
to gain a strategic advantage.

And the higher the technology, the
greater the advantage. So long as the
technology does what it's supposed to do,
that is. At Fujitsu, ours does. ∞ We create,
from the components up, computer, communi-
cations and microelectronic products of not only
the highest technology, but the highest quality and
reliability as well. ∞ And we support them in ways that
few other companies do. With extended warranties.
Liberal replacement policies. And superior technical
support. ∞ Moreover, as part of a company at the
forefront of today's emerging and converging
computer and communications technologies,
our systems support teams offer unique
expertise. ∞ Fujitsu. Our technology
helps keep you moving upward.

And our people won't
let you down.

∞
FUJITSU

COMPUTERS, COMMUNICATIONS, MICROELECTRONICS

**SAVIN
IS WORKING
HARD TO
BE YOUR NEXT
DOCUMENT
OUTPUT
COMPANY.**

HEWLETT
PACKARD

SHARP

Canon

XEROX

At Savin we have one simple goal. To be the one document output company that answers all your document handling needs.

That's why we've been working overtime to bring you the forward-thinking, award-winning technology essential to boosting productivity in today's digital offices. With fast, versatile, connectable digital imaging systems that allow you (or your workgroup) to print, sort, duplex and staple — right from your desktop. And full-color imaging systems that turn electronic documents into brilliant hard copy.

But advanced digital technology is just the beginning. Because at Savin we're working hard on becoming the fastest, most responsive name in the business. With smart, highly-trained Savin professionals who will do whatever it takes to give you the satisfaction and service you deserve.

To find out just what we'll do to be your next — and last — document output company, contact us at 1-800-234-1900 or www.savin.com.



savin

WE'VE GOT WHAT IT TAKES TO WIN YOU OVER®

COVER STORY

DOING BUSINESS IN THE INTERNET AGE

The explosion on the Net will be felt in every industry—and in every corner of the world page 121



BusinessWeek

JUNE 22, 1998



U.S.-CHINA
Plain talk
could lead to
a real alliance page 54

Cover Story

- 121 THE 'CLICK HERE' ECONOMY**
Business on the Net is booming—and it's destroying old habits and creating new opportunities
- 130 YOU AIN'T SEEN NOTHIN' YET**
E-commerce's potential is boundless
- 132 LOG ON, LINK UP, SAVE BIG**
Extra oomph from Net partnerships
- 140 THE NEW SUPPLY CHAIN**
The Web is blurring traditional roles
- 144 INSTANT INFO IS NOT ENOUGH**
Blending digital and human help online
- 146 REBIRTH OF A SALESMAN**
Middlemen get reinvented on the Net
- 148 HOW SAFE IS THE NET?**
Not enough for most businesses
- 154 SECRETS OF THE CYBER MERCHANTS**
How the winners do it
- 162 WHERE ARE THE BARGAINS?**
Buying online isn't always cheap
- 166 COMMENTARY: NET SECURITY**
Perils? Sure. But the techies can cope
- 170 TAMING THE INFO MONSTER**
Managing data is a matter of survival

News: Analysis & Commentary

- 34 NOW WORKERS GET THE GRAVY**
Businesses suffer a reversal of fortune as higher labor costs crimp earnings
- 36 NORTHWEST'S ANGRY WORKERS**
They gave, now they want to take
- 37 COMMENTARY: THE LABOR MARKET**
Why high wages aren't cause for worry
- 38 I'LL TAKE THAT, AND THAT, AND ...**
U.S. retailers prosper across the board
- 39 A QUAGMIRE FOR GM**
Its latest strike is lose-lose all around
- 39 CHRYSLER'S GRAND (CHEROKEE) PLAN**
The moment of truth for the new Jeep
- 40 A MERGER-LESS MERCK**
But can it keep growth high on its own?
- 42 THE CASE AGAINST INTEL**
It may be far from foolproof
- 44 A TOUGH MEAL FOR COMPAQ**
How it plans to digest Digital
- 48 NBC SNAPS UP SNAP!**
Soon, others may want their own portal
- 48 COMMENTARY: MCI-WORLDCOM**
Why this deal deserves close scrutiny
- 50 IN BUSINESS THIS WEEK**

International Business

- 54 CHINA**
Both the U.S. and China hope to gain from the upcoming summit
- 56 CHINA**
For foreign investors, "a big step"
- 58 CHINA**
Returning students encourage investment
- 60 EUROPE**
IPOs become the No. 1 way to raise money
- 62 MEXICO**
A brawl over the bank bailout
- 64 ARGENTINA**
Buyout king Juan Navarro breaks the bank

Economic Analysis

- 24 ECONOMIC VIEWPOINT**
Kuttner: Left-of-center capitalism
- 26 ECONOMIC TRENDS**
- 31 BUSINESS OUTLOOK**
The job market threatens to stall

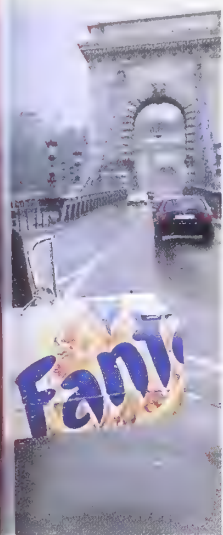
Government

- 53 WASHINGTON OUTLOOK**



RATE LOYALTY

as companies rewrite the
rent contract page 67



JOYRIDE

Marketers
are racing
to Central
Europe,
courting
the rising
middle
class page 104

CATCHING UP

Wages are
really climbing.
But now profits
are suffering

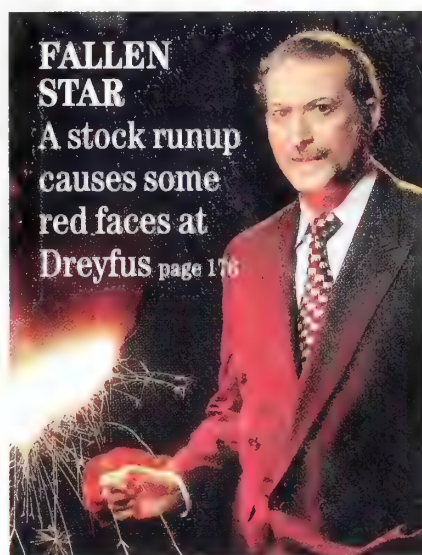
page 34



EMPIRE BUILDER

Salick is
creating a
network of
cancer
clinics

page 71



FALLEN STAR

A stock runup
causes some
red faces at
Dreyfus page 176



UPSTART

Fledgling ATA
is taking on
American and
United page 96

TARY: THE IRS

ical reform could backfire

lace

YOU TO STAY. REALLY

ers do more to keep workers

ALICK'S BUSINESS IS CANCER

profit clinics head for New York

INI OF ELECTRONICS

alze's magic with Best Buy

orporation

RLINE, TRICKY FLIGHT PLAN

on the big guys

S SUCCESS IN THE CARDS?

e overhaul may not be enough

ing

ORES WHOOP IT UP

on celebrations is on the rise

EUROPE'S NEW CONSUMERS

emand has companies drooling

T'S MAD AVE

rickson leads in ad billings

Finance

176 WHAT DREYFUS DIDN'T DIVULGE

Fund manager Michael Schonberg
loaded up on Chromatics—and owned
plenty of the stock himself

178 GOLDMAN SACHS PLAYS HAMLET

To go public or not to go public? It's a
wrenching decision, and all 190 of the
firm's partners are participating in it

182 MERGE OR SINK FOR SMALL BOURSES

U.S. regional stock exchanges are just
treading water

184 FIDELITY GOES GLOBAL

The mutual-fund giant aims to become a
powerhouse almost everywhere

188 INSIDE WALL STREET

217 INVESTMENT FIGURES OF THE WEEK

Sports Business

203 WANTED: RAILBIRDS

Horse racing is trying to lure a new
generation of fans to the sport while
increasing TV coverage

204 IT'S RONALDO'S WORLD

How the World Cup could boost the
fortunes of soccer's biggest star

Personal Business

206 INVESTING: Tapping into small biz

COMMENTARY: Stocks aren't a wild bet

FUND WATCH: Garrett Van Wagoner

REAL ESTATE: REITs for the bold

AUTOS: Porsche revamps a racehorse

Features

6 UP FRONT

10 READERS REPORT

14 CORRECTIONS & CLARIFICATIONS

16 TECHNOLOGY & YOU

Laptops that double as desktops

17 BOOKS

Nasar: *A Beautiful Mind*

215 BUSINESS WEEK INDEX

216 INDEX TO COMPANIES

218 EDITORIALS

Fanfare for the common man

A flimsy case against Intel

BusinessWeek **ONLINE**

businessweek.com

America Online: Keyword: BW

Up Front

EDITED BY ROBERT McNATT

TRADE WARRIORS

AN AFRICA BILL'S BUMPY RIDE

THE WHITE HOUSE WAS shocked when South African President Nelson Mandela unexpectedly attacked the Africa Growth and Opportunity bill as "not acceptable" during President Clinton's March trip to the continent.

But in a bit of good news for the Administration, South African officials are quietly

passing the word that Mandela has reversed course and now endorses the free-trade legislation. The bill—O.K.'d by the House but stalled in the Senate—would end trade barriers on imported African clothing and encourage economic liberalization in Africa. Mandela's criticism, says the U.S., resulted

from a misunderstanding of parts of the bill that have since been clarified to him.

Final passage is still not assured, though. Textile interests, fearful of low-cost imports, oppose it. So do some African American legislators. Senator Carol Moseley-Braun (D-Ill.) won't back the bill because she is looking for labor's help in her tough upcoming reelection battle. And Representative Jesse Jackson Jr. (D-Ill.) bluntly says the bill just doesn't do anything for black Americans.

But South Africa is pleased that the U.S. sees Africa as a global economic player. Says Franklin Sonn, its U.S. Ambassador: "This is significant, and it is appreciated." *Paul Magnusson*



AFTERLIVES

THE STREET SIGNS SAID 'GO WEST'

HE WAS PLUCKED FROM obscurity in 1991 by Warren Buffett to be the general counsel of Salomon during its Treasury bond scandal. He

TALK SHOW "While it is possible that we have, in a sense, moved 'beyond history,' we also have to be alert to the possibility that less favorable historical relationships will eventually reassert themselves."

—Alan Greenspan, testifying to Congress about the economy

then rose to become chairman. But now, as they say, the party's over. And Robert Denham, 52, is going home.

In 1997, Salomon was sold to Travelers, which is now set to merge with Citicorp. So Robert and Caroline Denham, out of a job this year, will rejoin the law firm of

Munger, Tolles & Olson in Los Angeles, starting his own mergers and acquisitions practice. He says Travelers' purchase of Salomon was for the best—it needed to be bigger to stay profitable and competitive. But he frets that investment bankers are too deal-driven: "When a compa-

ny is looking for help, investment bankers often are the best people to be talked to because they bring a different bias."

Denham and his wife, Christine, will live in Pasadena. As with any good power couple, she has a new girl, Caroline, who headed an educational institute at Claremont University, will be an assistant professor at Pacific Oaks College and Children's School, and an institution. She hopes to contribute to the national debate on child care. "We're like to be the voice of reason on children's issues," she says. That might be even tougher than running a Wall Street firm. *Leah Nathanson*

VITAL SIGNS

A BLOODY AFFAIR FOR THE AMA?

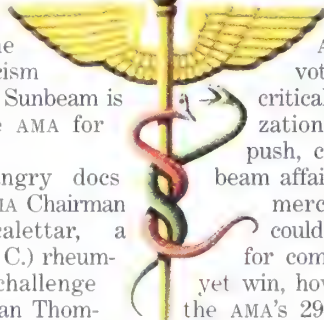
PHYSICIAN, HEAL THYSELF. The 1998 American Medical Assn. convention, starting June 14 in Chicago, promises to be a fractious one, with a serious battle brewing for the AMA presidency.

At the heart of it all is the Sunbeam affair. Last year, the AMA agreed to endorse Sunbeam products for \$7 mil-

lion but renegotiated on the deal after criticism from members. Sunbeam is now suing the AMA for \$20 million.

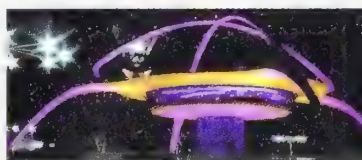
So some angry doctors want former AMA Chairman Raymond Scalettar, a Washington (D.C.) rheumatologist, to challenge current chairman Thomas Reardon, a Portland (Ore.) general practitioner and the man they blame for the deal. Scalettar lost a 1993 bid

to lead the AMA by 100 votes. He is critical of the organization's co-branding push, calling the Sunbeam affair "crassly commercial." Reardon could not be reached for comment. He may yet win, however. But the AMA's 294,000 members don't seem to blame him personally. Others just careen about managed care and reform. *David G.*



THE LIST SUMMERTIME, AND ... YOU'RE GROUNDED

Hate airport construction detours? Well, construction is going full tilt at airports across the country this summer. Here's a list of airports with the biggest



BEWARE: LAX terminal

potential nightmares. Use the headaches: Use mass transit, and book airport hotels for meetings.

AIRPORT	PROJECT	COST	COMPLETION DATE
BOSTON LOGAN INTERNATIONAL	Terminal expansion; roadway improvement; parking garage, transit connector, and hotel construction	\$1 billion	2000
GEORGE BUSH INTERCONTINENTAL, HOUSTON	Terminal improvements and people-mover improvements	\$200 million	2002
PORTLAND (ORE.) INTERNATIONAL	Expansion of roadways and parking areas	\$105 million	1999
DALLAS/FORT WORTH INTERNATIONAL	Terminal expansion	\$100 million	1998
LOS ANGELES INTERNATIONAL	Terminal expansion and renovation	\$45.1 million	1999

DATA: HNTB CORP.

Nothing Lasts Longer

World's
best-selling UPSs
start at \$99

Renewable
UPS System
**DESIGNED
TO LAST A
LIFETIME!**

• User-Resettable Circuit Breaker •
• User-Replaceable Batteries •



• Fault Indicator
• Automatically identifies building
• Problems

• Outlets give you room to plug in
• Your blocks

Now the world's best-selling desktop
UPS units offer you even more value
for your power protection dollar! With
protection of all data loss and downtime
from bad power, your APC invest-
ment pays for itself the first time you use it.

Class" Longest Runtime.
Your power and guaranteed
Class" Longest Runtime.
Your UPS will meet or exceed that of any
other UPS for desktop applications, or
even better!

protection for your whole system
Protects your CPU, monitor, external
modem, laser printer, fax machine, and zip
drive and provides telephone/network surge
protection.

Renewable UPS system
QuickSwap™ battery packs are the
simplest and easiest way to safely renew a
"disposable" UPS which doesn't require
user replacement and mean the least
expensive investment.

LONGER LIFETIME GUARANTEE

APC Back-UPS Pro®,
Back-UPS® and Back-UPS Office® will provide run-
time which meets or exceeds that of any same VA
UPS for desktop PC applications or your money back.
For more information, visit www.apcc.com.



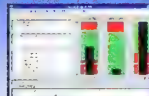
"Long Lasting" "Back-UPS Pro was
our favorite unit... [it] won top
honors in our battery life tests"

Safe, even from lightning

APC multi-stage surge suppression clamps
down on lightning and offers a \$25,000 guar-
antee against damage to your equipment.
See policy for details.

APC packs the power and features desktop
users want, plus the peace of mind and
legendary reliability reflected by over
8,000,000 field-tested and proven units.

Back-UPS Pro Power User Features



PowerChute™ plus power
management software lets
you configure UPS re-
sponse to over twenty
events. During an extend-
ed outage, WorkSafe™ can automatically save
data, close programs, and shut down your
computer, whether you're there or not.

Automatic Voltage Regulation (AVR) with
DoubleBoost™ and CellGuard™ intelligent bat-
tery management let you work through the
deepest prolonged brownouts without wasting
battery power, extend battery life, and speed
recharging.

APC Safety, Readiness and Reliability

Microprocessor-controlled automatic battery
self-test regularly checks status of the unit
and ensures battery readiness

QuickSwap™ user-replaceable battery
system lets you easily renew the UPS system
and avoid factory service delays

Push-button circuit breaker provides user-
resettable overload protection and eliminates
the need to replace a traditional fuse or even
the entire "disposable" UPS

Internet and network ready



'Editors' Pick: "We wouldn't
be caught dead without an
uninterruptible power supply -
and neither should you."

FREE! Catalog and UPS Selection Guide

Just mail or fax this completed coupon
for your FREE catalog and UPS selection
Guide. Better yet, order them today at:

<http://promo.apcc.com>

KEY CODE **D620Z**

☐ **YES!** I'd like more information. Please send my
FREE catalog and UPS selection Guide.
☐ **NO,** I'm not interested at this time, but please
add me to your quarterly newsletter mailing list.

Name: _____

Title: _____ Company: _____

Address: _____

City/Town: _____

State: _____ Zip: _____ Country: _____

Phone: _____

Brand of UPS used? _____ #

Brand of PCs used? _____ #

Brand of Servers used? _____ #



(888) 289-APCC x8158 • FAX: (401) 788-2797

to: **EGGHEAD**

**BEST
BUY**

Fry's

Insight
800-859-5614

OfficeMax

PC Zone

COMP

GLOBAL

Trademarks are the property of their owners. BK1B9EF - US

(800) 347-EARX PowerFax

E-mail: apcc@apcc.com

1201 Fairview Dr., Bldg. 200, Framingham, MA 01901 USA

has won more awards for reliability
than all other UPS vendors combined.



Up Front

PRODUCT PEEK

COLLECT THE WHOLE SET!



FUN WITH RUBBERS: Erco's line

IS THIS WHAT THE FALL of the Iron Curtain has wrought? Six years ago in the Czech village of Doubava, Jaroslav Richtl was in one of those barroom conversations that usually amount to nothing. Not this time. Out of that talk, Richtl founded Erco, a little company whose products—novelty condoms—would make any hard-line Marxist-Leninist see red.

As Richtl, a onetime farm

laborer, says of his new job: "This seemed better." Erco's newest line is a World Cup condom, selling in sex shops near game sites in France.

The rubbers sport a mini-soccer ball on the end, topped with a national flag. Erco, with \$300,000 in 1997 revenues, gets a marketing assist from Trade & Industry Ministry official Jan Puschman. "I always take a few samples with me on foreign trips," he says.

"They're a great way of spreading AIDS awareness." Most of Erco's 600,000 condoms were exported to the European Union, the Far East, and Australia last year, but the company hopes the World Cup visibility will open South American and African markets. Even if it doesn't, an Erco condom is bound to make a more distinctive souvenir than an "I Love Paris" T-shirt.

James Drake

SLUGFESTS

SUPPLEMENTS: DO THE LABELS LIE?

THE BUSINESS OF HEALTH and nutritional supplements is booming, but controversy about what's actually in those bottles lining health-food store shelves is raising the industry's blood pressure.

While the Food & Drug Administration has proposed limiting the dosage of the supplement ingredient ephedrine—a stimulant—verifying label claims has fallen to private groups in the interim. A Mississippi watchdog group, Advance Supplement Testing Systems (ASTS), reports that of 107 products it farmed out for testing, over half deviated in ingredient contents by 20% or more.

Some supplement makers have threatened to sue over



those claims, and fitness types aren't happy, either: "Lab Test Doo Doo" shouts an *All Natural Muscular Development* magazine headline. The ASTS periodical *Lab Test Review* claims that Twinlab's Ripped Fuel diet aid exceeds its stated dosage of ephedrine by 23%.

This could be a problem for the \$213 million company, a major industry player. The FDA, meanwhile, wants to limit ephedrine to less than half Ripped Fuel's dosage—reports have linked it to heart attacks.

Twinlab counters that its independent tests confirm its labeling and that, properly used, ephedrine "does not kill anybody."

Joan Oleck

DRAWN & QUARTERED



TOY STORY

INVASION OF THE WOODEN IMP

AFTER SCORING TWICE WITH Thomas the Tank Engine and Teletubbies, Kenn Viselman and his licensing company, itsy bitsy Entertainment, hope to charm the preschool set—and make a bundle—with Britain's Noddy.

The impish wooden figure that comes alive in a curiosity shop has been a staple of kids' books in Britain for decades and has his own BBC series. The U.S. marketing push is based on a Noddy series that will premiere this fall on PBS.

Marketing kids' toys isn't child's play. Earlier, at another

company, Viselman venated the mo Thomas the Tank Engine product line, which has \$2 billion worth of merchandise since 1990. Now, itsy bitsy Entertainment, of music and video distributor

Handleman, he has inked deals for Teletubbies toys, which have been here since April. Viselman hopes Noddy will be in stores for Christmas.

Itsy bitsy \$3 million in 1997 revenues already has Noddy licensing deals with German toy maker Gund and program Videos. If the series does well, kids who join those in 40 other countries that are already Noddy. And itsy bitsy's business get bigger. Tammy

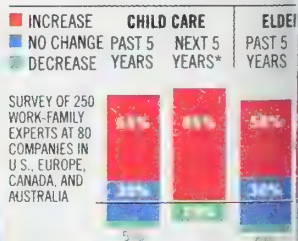


THE BIG PICTURE

WHO NEEDS YOU MOST? By 2005, 37% of U.S. workers will be more concerned with caring for a parent than a child, a major shift. Employees are expected to demand benefits to reflect this change.



DEPENDENT CARE NEEDS



SEE ALL THE WAYS IT PAYS TO GET METLIFE FOR BUSINESS.

MetLife Employee Benefits and Investment Products are helping millions of Americans become financially secure.



75 years of institutional investing. \$330 billion in assets under management.**



Investment Expertise



Plans for every business. Even small businesses.

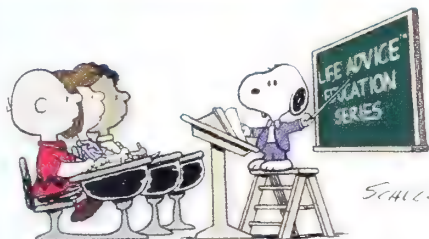
voluntary benefits

The source to support diverse employee needs.

America's fastest-growing major 401(k) provider.*



Instant online information for you and your employees.



Our Life Advice™ education series helps employees make sense of it all.

Contact your broker, consultant, MetLife account representative, or call toll-free:

1 877-MET-BtoB
(1 877-638-2862)

MetLife

www.metlife.com/business

ss Research, Inc. 1997. **As of 12/31/97. †Subject to approval in some states.

ance products and annuities issued by Metropolitan Life Insurance Company. Auto and Homeowners Insurance underwritten by Metropolitan Property and Casualty and Affiliates, Warwick, R.I. ©1998 Metropolitan Life Insurance Co. NY, NY. PEANUTS ©United Feature Syndicate, Inc. H9804WDB (exp0499) MLIC-LD

EDITOR IN CHIEF: [Name]
MANAGING EDITOR: [Name]
CHIEF ECONOMIST: William Worman
ASSISTANT MANAGING EDITORS: [Name]

ART DIRECTOR: Malcolm Frauman
CHIEF OF CORRESPONDENTS: James E. Ellis
SENIOR EDITORS: Bob Arnold (New Media), Frank J. Comes, William [Name]

EDITORIAL PAGE EDITOR: [Name]
SENIOR WRITERS: Robert Barker, Anthony Bianco, John A. Byrne, Jeffrey M. Laderman, Gene G. Marcial, Karen Pennar, Ois Port, Gary Weiss
ECONOMICS: James C. Cooper (Sr. Economist/Bus. Outlook ed.), Kathleen Madigan, Michael J. Mandel (Economics ed.), Peter Coy, Gene Koretz (Trends ed.), Christopher Farrell (Contributing ed.)

INTERNATIONAL: [Name]
European Edition ed., Duane E. Anderson, Pete Engardio, Joan [Name]
Asia: John Pearson (Latin America), Kerry Capelli (Finance)

ASSOCIATE EDITORS: Catherine Arnt, Aaron Bernstein, Dan Beckue, Amy Dunkin, Rick Green, Neil Gross, Keith H. Hammonds, Kelley Holland, Larry Light, Ira Sager, Leah Natans Spiro, Fred Strasser, Pat Wechsler

PICTURE EDITOR: Lawrence Lippmann
SENIOR ART DIRECTOR: Francesca Messina

DEPARTMENT EDITORS: Books: Hardy Green; Corporations: Narett Bymes; Enterprise: [Name]; Legal Affairs: [Name]; Management: [Name]; Marketing: [Name]

Markets & Investments: Suzanne Woolley; Money & Banking: Debra Sparks; People: Eric Schine; Personal Business: Edward C. Baig; Personal Finance: [Name]; Scoreboards: [Name]

Software: Amy Cortese; Technology Strategies: Marcia Stepanek; Telecommunications: Peter Elstrom; Up Front: Robert McNair

STAFF EDITORS: Lor Bongomo, Heather Green, Joan Oreck, Edith Upoke

COPY EDITORS: Prudence Crowther, Harry Maurer (Deputy chiefs), Marc [Name]

Doug Royalty (Sr.), Giles Bunt, Joseph Mande, Anne Newman, David [Name]

Researchers: [Name]

PRODUCTION COPY EDITORS: Lawrence Dark, Cheryl Ha berg, Haimmussion, Carine Keating, B. Kite, Robert S. Norman, Robert J. Rosenberg, Victoria [Name]

ART: Jay Petrow, Steven Taylor, Deputy eds., Don Besom, Alice Cheung, Andrew Kahn Morgan, Christine Silver, Ass't: Peter Marshutz (Ass't)

Graphics & New Media: Arthur Eves (Creative dir.), Joan Danaher [Name]

Knouse Brimman, Alberto Mena, Ray Vella (Illustrators), Eric Hoffmann

Imaging: Annette Farley (Mgr.), Alan Bonizer (Ass't), Leo Neter, Joseph [Name]

PHOTO EDITORS: Scott Mlyn (Deputy), Ronnie Wei (Sr.), Michael Hirsch, Anne Murray, Andrew Popper, Assoc., Bettina Baudon, Kathryn Moore [Name]

EDITORIAL OPERATIONS: Yvonne F. Rodriguez (Director), Wally Baudin [Name]

David Nance, Cora, Stephen R. Lebrun, Jody A. LoGrosso, Jose L. Martin, Peter K. Niesberg, Jane M. Perkinson, Laura Reissman, Karen Turk, Ise V. Watson, Barbara Winem, Donald C. Pearson, Guillermo Ortiz

EDITORIAL TECHNOLOGY: Thomas L. Morgan (Director), Richard Baestriano, David Bandler, Marie Bryant, Beth Higgins, James Kutz, Neil MacLeod, John Navarro, Juan Rodriguez, Marta Skreja, Craig Sturges, George White

BUSINESS WEEK ONLINE: Michael Mercurio (Managing ed.), A. Peter Clem, John A. Dieroff, John Johnson, Dennis K. Berman, Nadav Enbar, Paul Eng, Patrick Lambert, Diane Young

CORRESPONDENTS: Atlanta: David Giesing, Mgr., Nicole Harris; Boston: William C. Symonds, Mgr., Paul C. Judge, Geoffrey Smith; Chicago: Richard A. Meiner, Mgr., Roger O. Crockett, David Leonhardt, Andrew Cleveland, Connecticut: [Name]

Susan Jackson, Dallas: Wendy Zellner, Mgr., Stephanie Anderson, Forest, Detroit: [Name]

Los Angeles: [Name], Miami: [Name], New York: [Name]

Philadelphia: [Name], Pittsburgh: [Name], San Francisco: Peter Blum, Steve Hamm, Linda Hester, Robert D. Washington

Washington Post: News ed., John Carey, Paula Dwyer, Howard Geckman, Sr. Correspondents: Amy Struss, Stan Crook, Richard S. Durham, Dean Foster, Susan B. Garland, Paul Magnusson, Mike McNamee, Stephen H. Woskresinski, Tech & You: Catherine Yang, Frankfurt: Thana Peterson, Mgr., Karen Lowy, Mgr., David Woodruff, Hong Kong: Joyce Barnatnan, Mgr., Mark L. Clifford, Bruce Ehrlich, London: Stanley Reid, Mgr., Julia [Name]

Los Angeles: [Name], Moscow: [Name], Paris: [Name]

San Francisco: [Name], Rome: John Rossant, Mgr., São Paulo: Ian Katz, Tokyo: [Name]

Toronto: [Name]

EDITORIAL SERVICES: Broadcasting: Ray Hoffman, Business Manager: Barbara Baudin, Information Services: James B. Risse, Director: Helen Stearns, Mgr., Judi Crave, Debra Giesing, Fred Katsberg, Robert Roeker, Sarah Rutledge, Barbara S. Verduin, Office Manager: Rosemary Klipp, Communications: Robert Ponsardo, Director, Christine [Name]

Reading: Robert [Name], Reprint Permissions: Janet Gonzalez

PUBLISHER: [Name]

SR. VP. ASSOCIATE PUBLISHER: William P. Kupper Jr.

SR. VP. OPERATIONS: Gary B. Hicks

SR. VP. MARKETING & BRAND DEVELOPMENT: Harold K. Somerville

VP. CONSUMER MARKETING/CIRCULATION: Thomas Massersch

VP. STRATEGIC PLANNING & PRODUCT DEVELOPMENT: Kimberly Greer

VP. SALES: Catherine E. Bennett, International: Joanne K. Brathurst, Western Region: Dan Dunn, Midwest Region: Robert H. Kelly, Northeast Region: Louis R. Mori, Southeast Region: [Name]

VP. STRATEGIC PROGRAMS: James H. McGraw IV

VP. SALES DEVELOPMENT: Mary A. Finn

VP. MANAGING DIRECTOR/ASIA: Stephen B. Moss

VP. MANAGING DIRECTOR/EUROPE: Fritz Krusebecker

VP. TECHNOLOGY: Thomas J. Reed

VP. CONTROLLER: Bernard J. Drackwitz

DIRECTOR ADVERTISING BUSINESS: Linda F. Carvato

DIRECTOR, PRODUCTION & SALES SERVICES: Mario J. Taluto

ABBY COHEN'S WINNING WAYS

Whether intended or not, "The prophet of Wall Street" (Cover Story, June 1) served two purposes. The first, of course, was to note the success and methods of Abby Joseph Cohen, who has so accurately and eloquently forecast this bull market.

The other was to shed some much-needed light on the error-laden predictions of Michael Metz, Byron Wien, and Elaine Garzarelli. Their guesses, if followed, would have cost investors money. All they offer in response is a "this-market-is-wrong" type of defense. What is amazing is their ability to remain employed. Thank you for not having the same type of amnesia as other business media in failing to hold "market wizards" accountable.

Michael W. Riley
Hiawatha, Kan.

I was surprised that Abby Cohen has only 65% of her model portfolio invested in stocks. Most people who are bulls opt for a much higher percentage than this. I personally am 98% in stocks. Of course, many stocks are partially bonds. Drug stocks are 10%-20% bonds, major oils are 45%, and many other industries are in between. If Cohen recommends putting 65% in equities, and many of the stocks have some partial bond features, then she really isn't sticking her neck out too far.

Alvin Golub
Brooklyn, N.Y.

GRADING THE FED'S PERFORMANCE

The Federal Reserve performs the ticklish balancing act of holding the U.S. economy on course—of keeping home ownership growing, keeping wages and salaries increasing, and keeping new businesses merging. Meanwhile, it must avoid spurring inflation and must take into account the many market forces in full view while anticipating untold economic forces ("When Greenspan should've

hiked," News: Analysis & Comments, June 1).

Within this complicated environment it turns out that the Federal Reserve has been doing the right thing. The rate increases that economist James Cooper would have had the Fed would have dampened homebuilding and business growth. Other forces continue to offset the overshoot of the stock market that Cooper concerned about.

Someday, the Fed will probably move to lower rates to keep the economy moving. Today's interest rates are relatively high for the recent love of inflation. Asian issues and other problems may bring greater real lower rates, not raise them. Either way, many of us believe the Fed is doing its job very well.

Morley G. [Name]
Jamesburg, N.J.

GIANT STEPS AHEAD FOR BIG BLUE

In order for IBM to reach double-digit growth again, it will have to change its view of the information industry fundamentally ("IBM: Back to double-digit growth?," The Corporation, June 1). Buying Lotus Development was a good move. A better move would have been to give Lotus OS/2 a port the company as an independent Microsoft Corp. competitor. Instead, the product mix comprising a robust operating system, the next-generation office suite, and Lotus Notes, all rely heavily on IBM's mainframe.

IBM's possible next moves:
(1) Purchase Netscape Communications Corp., which has several trillion-dollar looking enterprise offerings that could give IBM the marketing muscle. This would seem to be IBM's E-commerce initiative aimed at it to capitalize on Netscape's strategy.

(2) Drive an industry task force of PC makers, including Apple Computer Inc., to develop universal operating system specifications fostering standardization and modularity. Then, any new

Business Week

McGraw-Hill

JUNE 22, 1998 (ISSN 0007-7135) *** 3583

Copyright © 1998 by The McGraw-Hill Companies, Inc.

Printed in the United States of America

Postmaster: Please send address changes to Business Week, P.O. Box 518, Hightstown, NJ 08520.

Subscription rates: \$19.95 per year (single copies \$5.00 each).

Second-class postage paid at New York, N.Y., and at additional mailing offices.

Information Services Group.

by the copyright owner for those registered with the Copyright Clearance Center (CCC). Copying for other than personal or internal use without express permission of The McGraw-Hill Companies is prohibited. Address requests for customized bulk reproduction to: Special Projects, The McGraw-Hill Companies, 1221 Avenue of the Americas, New York, NY 10020.

write new OS modules, and the would reward the best. Launch independent companies to new software applications. All it has a comprehensive software IBM must wonder why few can applications leader.

Michael Avari
Garden City, N. Y.

IMMIGRANTS THEIR WAY IN FULL'

at makes the door so golden" mic Trends, June 1) sets out to a case that mature-age immi- who have a shortened period of ation to Social Security benefit ortionately from it—and at the e of U.S. citizens. The article to reflect a growing desire to cheap shot at legal immigrants, e neither political representation er power of response.

l immigrants pay their way in l if there is an appearance that e net winners in the Social Se- ame, it is illusory. Midlife immi- tend to bring with them sub- tax-unqualified benefits in their ent plans. Upon retirement, nefits—accrued through service tribution outside the U.S.—bel- ly taxable here. The immigrant t have the protection of rollover ax-deferred vehicle, such as an al retirement account, which those who have spent their life in the U.S. The real bene- s the U.S. Treasury, regardless Social Security payments made migrant.

Rod McKellar
Houston

OFFSHORE TRUSTS OUT TO EVADE TAXES

are, admittedly, far too many s funds managers and small hose operations are ambiguous couraging their clients to com- n the U.S. Income Tax code ven whiz or rogue banker?" Fi- une 1). As the Internal Rev- vice is well aware, thousands of and beneficiaries of offshore ve not reported their existence e on their 1040s and have found ssure from offshore trustees to

was the primary impetus for g the foreign trust rules in ll Business Job Protection Act which now requires virtually re trusts to file annual reports out U.S. agents with authority n connection with tax exams. e bulk of the \$2 trillion of off-

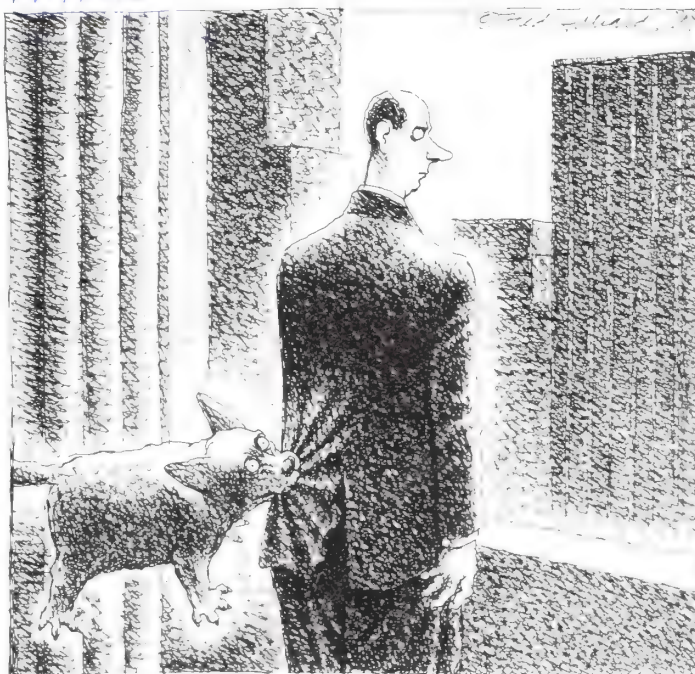
shore trusts in overseas jurisdictions protect assets from fraudulent credi- tors, adverse matrimonial settlements, forced heirship, and harassment and unwarranted malpractice suits thrust upon medical and legal professionals. Tax evasion is not and never should be a motive behind an asset-protection trust.

Walter H. Diamond
Senior Vice-President
Offshore Institute
Hartsdale, N. Y.

MCI-WORLDCOM: LABOR HAS ALWAYS OPPOSED THIS DEAL

In "Why GTE is fighting an MCI-WorldCom merger" (Readers Report, May 25), MCI Communications Corp. charged that GTE Corp. is "bankrolling" the efforts of the Communications Workers of America (CWA) to block a merger between MCI and WorldCom. MCI must be desperate to distract regulators and customers. That's the only plausible explanation for its lying about us. The

WillTales



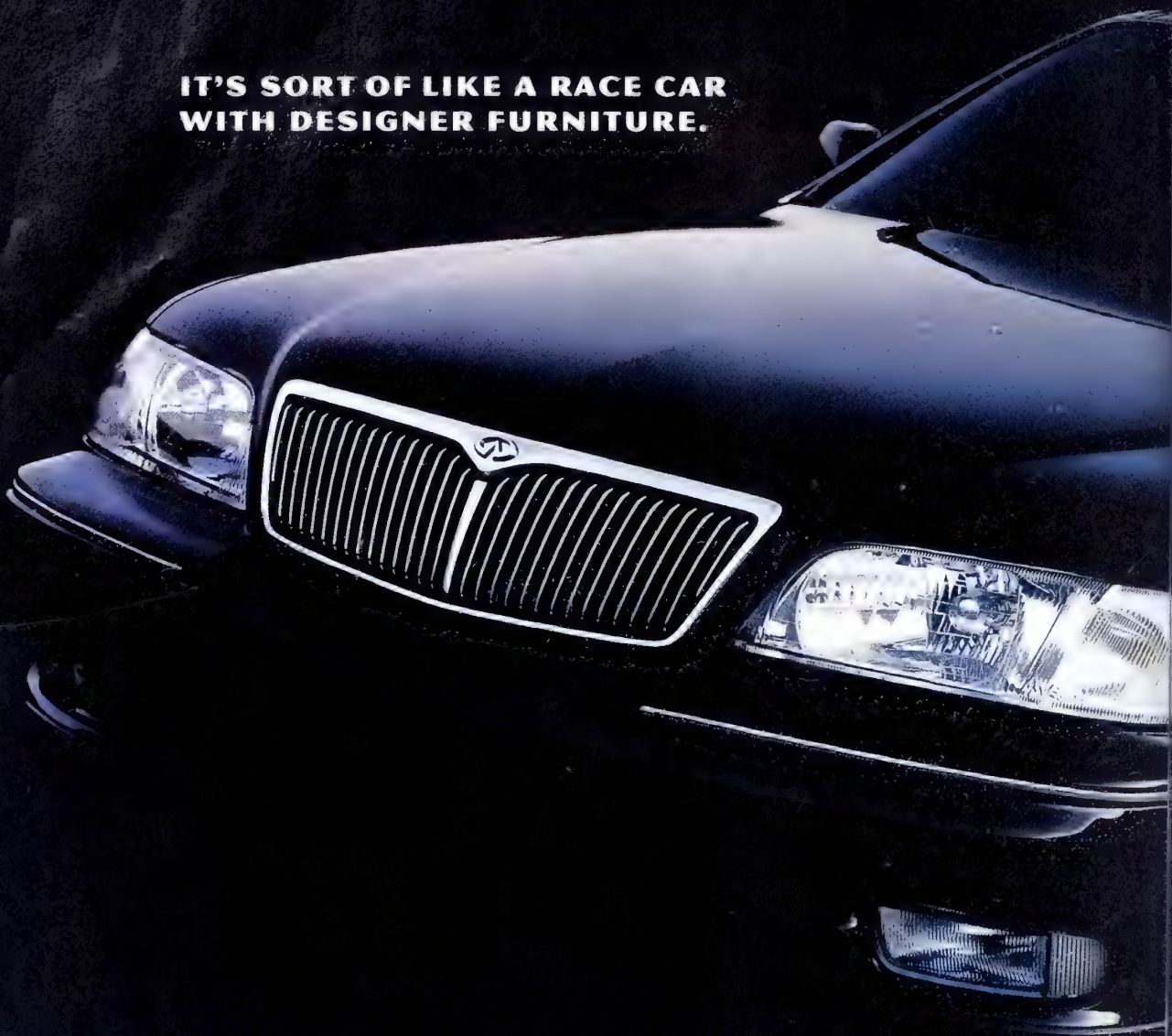
*Promises not kept can come back to haunt you.
That's why that Williams network will keep
its promise to be wholesale only.*

that **Williams** network 

visit www.willtales.com for info 1-800-WILLIAMS for more information. Promise

©1998 The Williams Companies, Inc.

**IT'S SORT OF LIKE A RACE CAR
WITH DESIGNER FURNITURE.**



© 1998 Infiniti Division of Nissan North America, Inc. U.S.A. Bose is a registered trademark of the Bose Corporation.

THE INFINITI Q45: Imagine a race car graced with leather instead of carbon fiber and you'll begin to understand the Infiniti Q45. It's a luxury sedan that sacrifices nothing to performance. It's a performance sedan that gives up nothing to luxury.



KEY FEATURES: Herculean 4.1-liter 266-hp V8 engine with Variable Valve Timing • Electronic traction control • Seton-leather-appointed cabin • 10-way, power-adjustable driver's seat with two-position memory • 200-watt, 8-speaker Bose® audio system.





much more to the Q45
can possibly explain here.
her details, please call
99-5900 for the nearest
retailer or visit our web site
infiniti-usa.com. Better yet,
yourself in a test drive. A
y quick test drive.



INFINITI. OWN ONE AND YOU'LL UNDERSTAND.

CORRECTIONS & CLARIFICATIONS

Sidney Harris created the mathematics cartoon mentioned in "Mergers: Crack down on stupid accounting tricks" (News: Analysis & Commentary, May 4). The correct caption is: "I think you should be more explicit here in step two."

CWA has opposed this merger ever since it was first announced last fall. Such a consolidation is anticompetitive and violates the intent of U.S. telecommunications policy.

We're not the only ones who know that the potential for MCI-WorldCom to dominate the Internet is too serious a threat to ignore. Such telecommunications companies as Sprint Corp. and some of the regional Bells, Internet service providers, consumer advocates, unions, and others have raised these concerns with the Justice Dept., Federal Communications Commission, and European Commission. And it appears that these objections are being given serious consideration by regulators on both sides of the Atlantic. Perhaps that's what has MCI so upset.

The price tag on this merger—monopoly control of the Internet backbone, reduced competition in the local telephone market, and fewer long-distance options—is just too high. That's why the CWA has been pressing regulators to stop this megadeal.

Morton Bahr
President
Communications Workers of America
Washington

JAPAN'S REPORTS ON LENDING ARE DETAILED AND CLEAR

In "Japan's real crisis" (Cover Story, May 18), Brian Bremner states that information about Japan's fiscal investment and loan program is not disclosed appropriately. In fact, a detailed report is issued annually to the public. This information is accessible in English over the Internet (www.mof.go.jp/english/zaito/filp97.html).

Mr. Bremner contends that the outstanding fiscal investment and loans are identical to the national debt. Japan's fiscal investment and loan program is a system under which funds accumulated through government organizations and the credit system are channeled to local governments and public financial institutions in the form of investments and loans. It is essentially the same as

federally assisted credit programs in the U.S. Accordingly, the program's outstanding liabilities are not included in general government debt. This classification is in accordance with the U.N. System of National Accounts. Moreover, the portion of the investment and loan program apportioned to loans to central and local governments is counted as debt of the relevant government, and thus it is erroneous to count this portion twice by including it among general government debt.

Second, the fiscal investment and loan program has no nonperforming loans. As for the public financial institutions, major recipients of those loans, the average bad-debt percentage is reported as 0.78% as of the end of March, 1997, well below the corresponding percentage at major private-sector banks (3.34%). Each of these institutions has taken preventative measures in the form of loan-loss reserves, capital, and provisions.

Finally, all Japanese banks are already reporting the amount of bad loans as of March, 1998, based on disclosure standards of the Securities & Exchange Commission. The recently approved Financial System Reform Law will expand this disclosure standard to all the depository institutions' financial statements on a consolidated basis from March, 1999. We are confident that these measures will enhance the transparency of the quality of loans made by the private financial sector.

Naoki Kajiyama
Counselor, International
Public Relations
Ministry of Finance
Tokyo

HISTORY'S LESSONS, FROM ROCKEFELLER TO GATES

The extract from Ron Chernow's book *Titan* was well done ("The monopoly that went too far," Book Excerpt, May 18). The story reads like a modern version of what is occurring with Bill Gates at Microsoft Corp. I have gained some insight into John D. Rockefeller and his empire and some of the issues facing Microsoft. Sometimes, history offers the best perspective on current events.

J. Dekosky
Coral Springs, Fla.

FACE-TO-FACE WITH ALVIN TOFFLER

In your article about the new role of big cities in the Information Age, you assert that "Alvin Toffler, Roger Nais-

bitt, and other seers in the 1980s predicted that fax machines, the Internet, mobile phones, and similar high-tech gear would eliminate the need for face-to-face interaction" ("Brighter lights, bigger cities," Social Issues, May 4).

Please explain exactly where you found me denying the need for face-to-face human interaction, since I've spent years in print and on the air arguing that, even with the technologies of today, there still is no substitute for some face-to-face contact. In *The Third Wave* (Ballantine, 1981), in a chapter forecasting the recent shift to home offices, you write: "...it would be a mistake to underestimate the need for direct face-to-face contact in business, and all the social and non-verbal communication that accompanies that contact."

Alvin Toffler
Los Angeles

FINDING US ONLINE

BusinessWeek ONLINE

The full text of Business Week, the Business Week Daily Briefing, and seven years of BW archives are available on the World Wide Web at:

www.businessweek.com

and on America Online at Keyword: BW
To sign up for BW on AOL, call (800) 641-4444 and mention Business Week.

maven

Shopping for computer equipment? Visit Maven, the online Computer Buying Guide, for continuously updated ratings and price information. Go to Keyword: Maven on America Online or to the World Wide Web at:

www.maven.businessweek.com

HOW TO REACH BUSINESS WEEK

LETTERS FOR READERS REPORT

All letters must include an address and daytime/evening phone numbers. We reserve the right to edit letters for clarity and space and to use them in electronic and print editions.

Mail: Business Week, 1221 Avenue of the Americas, 39th floor, New York, NY 10020

Fax: (212) 512-6458

Internet: bwreader@businessweek.com

America Online: readersbw

SUBSCRIBER SERVICES

For individual subscriptions, corporate subscriptions, renewals, changes or problems, and single copy requests, call (800) 635-1200 or (609) 426-7500. Fax: (609) 426-7623.

Internet: bwcustsv@businessweek.com

REPRINTS AND COPYRIGHT PERMISSIONS

For custom reprints (minimum order of 500) call (609) 426-5494.

Before quoting or reusing editorial material

Phone: (212) 512-4801

Fax: (212) 512-4938



Internet finance

with
56K



The financial markets move at a dizzying pace. Now you can keep up, with the new

3Com U.S. Robotics

U.S. Robotics® V.90 56K* standard modem. It connects up to 80% faster than other 28.8 modems, giving you quicker access to quotes, charts and reports than ever before. And it's compatible with nine of the top ten Internet providers and over 1,400 more around the globe. No wonder U.S. Robotics is the world's best selling modem. To learn how you can capitalize on more of the action, contact a U.S. Robotics reseller or visit www.3com.com/56kcentral.



Download speeds may vary. The actual download speed may be as low as 16 Kbps and as high as 56 Kbps. Actual speeds may vary due to many factors, including network congestion, distance from the server, and the quality of the phone line and modem equipment. Compatible with Windows 95, Windows 98, and Windows NT. For more information, visit www.3com.com/56kcentral. © 1998 U.S. Robotics Corporation. All rights reserved. U.S. Robotics is a registered trademark of 3Com Corporation. 3Com, the 3Com logo, and U.S. Robotics are trademarks of 3Com Corporation. All other trademarks are the property of their respective owners.

BY STEPHEN H. WILDSTROM

TWO FOR THE PRICE OF ONE

These laptops can do double duty as desktops—and they're affordable

It used to be that if you wanted to use a laptop as your only computer, you had to make some hard choices. If you wanted maximum power, you'd end up with a laptop that weighed eight pounds and cost somewhere north of \$5,000. You could go for something lighter and less expensive, but you'd end up paying a price in features. Processing speed, storage capacity, and video performance were subpar even when your notebook was ensconced in a docking station for hookup to a full-size monitor.

No more. The specifications of laptops have soared, while prices have plunged. The most powerful desktops still outrun the best laptops in raw speed, video capability, and expandability. But even low-end notebooks offer more than adequate performance for all but the most demanding uses, such as video editing or computer-assisted design. And while considerable cost differences still exist between desktops and laptops with equal features, laptops have become quite affordable.

Mainstream Windows notebooks are evolving toward two basic designs. One, aimed primarily at the mobile executive, is the thin-light model. The typical specifications of these units: thickness less than 1.5 in.; weight about 5 lb.; a single

bay that can hold a floppy drive, CD-ROM, second battery, or other accessories; 13.3- or 14.1-in. active-matrix display; and a price around \$3,000 or more.

The second design, aimed at retail customers and cost-sensitive corporate buyers such as salespeople, focuses on price rather than portability. Units are bulkier and heavier and generally have both floppy and CD-ROM drives permanently installed. Many of these laptops carry price tags of less than \$2,000, especially if you settle for a 12.1-in. passive-matrix display, which is less bright and crisp than the active matrix. Even at the very low end of the market, you now get power that until recently could be found only in the most expensive notebooks.

FLEXIBLE. The new NEC Versa SX, starting at \$3,499, with a 13.1-in. active-matrix display and a 233 Mhz Pentium II, is an interesting thin-light machine in a class that includes such worthy competitors as the IBM ThinkPad 600 and the Hewlett-Packard

OmniBook 4100. The Versa, 1.3 in. thick and about 5 lb., offers unusual flexibility. A bay on the right side of the case holds either the floppy drive or the standard CD-ROM, and these can be swapped without rebooting. Additional options for the bay include a digital videodisk drive, a second hard drive, an extra battery, a 120 Mb Imation SuperDrive, and, later this year, the SuperDrive's better-established competitor, an Iomega Zip drive. In a re-

\$1,199. True, the Winbook is big and heavy, its 11-in. passive-matrix screen can hold a candle to today's bright active displays, and its nickel-metal-hydride battery gives barely two hours of use per charge. (A longer-life lithium-ion battery is an option.) But its 233-Mhz processor was the fastest mobile Pentium made recently as March, and its \$125 upgrade to bring the Winbook to 32 Mb of RAM makes this machine can do you

service as a desktop replacement. A docking port replicator makes it a breeze to connect the Winbook to a standard monitor, keyboard, and other desktop accessories.

At a somewhat higher niche, the Fujitsu LifeBook 280DX offers unusual flexibility in a value notebook. It uses the same 233-Mhz Pentium II as the Winbook, but its specs are a step up, including 32 Mb of standard memory, a lithium-ion battery, and a 2.1-Gb hard disk. It is 12 in. passive-matrix.

play is brighter and in higher contrast than the Winbook's. But what makes the \$1,999 laptop really unusual is a flexible bay that can hold a CD-ROM, a floppy drive, or an Iomega Zip drive standard. In the of the ubiquitous touchpad the Fujitsu has a sort of number bubble called the Trak that you push to move the cursor. It takes a little getting used to, but with a little bit of practice, I liked it better than the touchpads on the Winbook Versa.

I travel a fair amount for my purposes, I don't find the thin-light approach the way to go. But for budget-minded, the new powerful, low-cost notebooks are attractive, especially if you don't need the ultimate mobility.



WINBOOK XL: A low-price pioneer

flection of another industry trend, all of the accessories also can be used in the bay of NEC's bulkier, less expensive, LX series notebooks. The two lines also share the same docking stations and port replicators for desktop use.

At the other end of the market, the Winbook XL marks the birth of the not quite sub-\$1,000 notebook, with a base price of just

THE TRADE-OFF: PRICE VS. FEATURES

	NEC VERSA SX	FUJITSU LIFEBOOK 280DX	WINBOOK XL
CHIP	PII 233-266 Mhz	MMX 233 Mhz	MMX 233 Mhz
RAM	32 Mb	32 Mb	16 Mb
HARD DRIVE	2.1-4 Gb	3.2 Gb	1.6 Gb
WEIGHT	5 lb.	7.6 lb.	7.3 lb.
PRICE	\$3,499-\$3,999	\$1,999	\$1,199

DATA COMPANIES

QUESTIONS? COMMENTS? E-mail tech&you@businessweek.com or fax (202) 383-2125

BEAUTIFUL MIND
 Biography of John Forbes Nash Jr., Winner of the Nobel Prize in Economics, 1994
 by Sylvia Nasar
 Random House & Schuster • 459pp • \$25.00

THE TORTURED GENIUS BEHIND GAME THEORY

In 1950, at the age of 22, John Forbes Nash Jr. created modern game theory with two brilliant papers in 1950, shortly after being granted a fellowship in the mathematics department at the Massachusetts Institute of Technology, he was involuntarily committed to McLean Hospital in Belmont, Massachusetts, with a diagnosis of paranoid schizophrenia. He left MIT, driven by delusions and visions, and for the next 30 years languished in obscurity. In 1994, Nash was awarded the Nobel Prize in Economic Science as a result of his youthful work on game

Beautiful Mind, Sylvia Nasar, an economics correspondent for *The New York Times*, tells the story of Nash's roller-coaster ride up to the heights of mathematical prowess, down into madness, and finally out again. The book is a fascinating account of a creature barely under control, of a mathematical genius who was driven by—eventually overwhelmed by—his inner demons. It represents a stage of writing and reporting, and includes an unprecedented look at the inner workings of the Nobel prize committee.

Among the best intellectual biographies of ideas as well as people, and where Nasar falls short. Missing is any discussion of how game theory, which tries to offer a comprehensive explanation of how individuals, corporations, and governments make economic choices—fits into economics, and a repeated and unsupported notion of its importance.

Without that intellectual framework, *Beautiful Mind* is a vivid portrait of the world of top-level mathematics in postwar America. Nasar spends most of her attention on the early Nash's development, from his undergraduate life at the

Carnegie Institute of Technology to his short-lived tenured position at MIT. She deftly lays out his self-centered, arrogant personality, which made him a hard person to be around but also enabled him to attack difficult mathematical problems without flinching.

In the space of a few years, Nash gained a reputation as one of the best mathematicians of his generation. He also fathered a child out of wedlock, got arrested for indecent exposure in a men's rest room (which, in that era of intense homophobia, resulted in his being kicked out of RAND Corp. as a security risk), and married a beautiful MIT physics student who, despite having later divorced him, continued to take care of him during his decades of infirmity.

Nasar gives an eloquent account of Nash's struggle with paranoid schizophrenia. By the summer of 1960, he was roaming the streets of Princeton, N.J., where he was then living. "With dark hair to his shoulders and a busy black beard, he had a fixed expression, a dead gaze," writes Nasar. "Women, especially, found him frightening."

By 1970, after several stays in mental institutions, Nash had calmed down somewhat. Having returned to Princeton, where he was looked after by his ex-wife and protected by a few friendly mathematicians, he became known as the "Phantom of Fine Hall," the building in which Princeton's mathematics department was located. Nash would leave cryptic messages and equations on classroom and hallway blackboards, and he spent countless hours in the Princeton library.

Despite the increasing prominence of his early work, Nash was effectively in-

visible and forgotten during this period. Indeed, the book opens a window upon how society treats the mentally ill. During the 1980s, in fact, there were several honors that he would have received, says Nasar, if he had not been deemed insane.

But over a period of time, Nash recovered his lucidity. By the late 1980s, when the Nobel committee started considering awarding a prize for game theory, Nash was well enough to be at the top of the list of potential recipients. Still, there was enormous opposition within the committee, based on skepticism about the usefulness of game theory and worries about Nash's state of mind.

And even though the Nobel prize committee eventually voted in favor of giving the award to Nash, the fight was not yet over. On the day the winner of the prize is announced, the Royal Swedish Academy of Sciences has to vote to approve it. Almost always, the

vote is purely a matter of form. But on this occasion, according to Nasar, the nominees were attacked for being "too narrow, too insubstantial, too technical." In the end, writes Nasar, "Nash and the two other candidates for the 1994 economics prize passed by a mere handful of votes—the first in history to skirt so close to defeat."

The closeness of the vote also exposed the hostility felt by natural scientists and mathematicians toward the economics prize. They doubted the rigor of the discipline and worried that "the shallowness of the field [of economics] was leading to a sharp and rapid decline in the quality of Laureates." The turmoil over Nash's Nobel prize, according to Nasar, helped prod the Academy in February, 1995, secretly to redefine the economics award "as a prize in social sciences, open to great contributions in fields like political science, psychology, and sociology."

Despite her reporting strength, Nasar is sometimes prone to hyperbole. She writes that "Princeton in 1948 was to mathematicians what Paris once was to painters and novelists...and ancient Athens to philosophers and playwrights." The chairman of Princeton's



ASH RODE TO THE HEIGHTS IN MATH PROWESS,
 DOWN THROUGH MADNESS, AND OUT AGAIN



The world's best-selling servers.



ENTERPRISE SERVER

PROLIANT 7000 SERVER

STARTING AT \$16,080*



ENTERPRISE SERVER

PROLIANT 6500 SERVER

STARTING AT \$13,807*



ENTERPRISE SERVER

PROLIANT 5500 SERVER

STARTING AT \$7,385*

Thousands of businesses trust their mission-critical data to SAP. Who does SAP trust?

Over half of SAP's™ R/3™ installations running Windows NT® run on Compaq servers. That's twice the number of installations of any other Windows NT-based hardware provider. And no surprise why. Because SAP develops and tests their software on Compaq platforms—a partnership designed to assure you maximum performance, reliability and easy implementation. Industry-standard platforms bundled with SAP solutions are one way we make sure that the best ideas always reach you. To learn more, visit our website or call for a reseller near you.

800-319-7778 www.compaq.com/solutions

Compaq Computer Corporation. All rights reserved. Compaq registered U.S. Patent and Trademark Office. *All prices shown are suggested selling prices on select models. Reseller prices may vary. Offer valid U.S. only. ProLiant is a registered trademark of Compaq Computer Corporation. SAP and R/3 are trademarks of SAP AG. Windows NT is a registered trademark of Microsoft Corporation.The Compaq logo, featuring the word "COMPAQ" in a bold, italicized, sans-serif font, with a small swoosh under the "Q". The logo is white and set against a red rectangular background.

WHEN YOU ARE READY TO

GO PUBLIC

WE CAN HELP!

SEC REGISTERED PUBLIC COMPANIES AVAILABLE FOR MERGER

WE ASSIST NEW AND EMERGING COMPANIES
IN GOING PUBLIC THROUGH A MERGER WITH A
REGISTERED PUBLIC COMPANY OR A CUSTOMIZED
REGISTERED STOCK DIVIDEND DISTRIBUTION.

FOR FURTHER INFORMATION, PLEASE
CONTACT US AT:

BKL & Co./PIERCE MILL ASSOCIATES
T(310) 556-6820 F(310) 556-6823
WWW.BKL.COM

Get the latest advertiser info.

Check out



BizLink

www.businessweek.com/BizLink/

on page 214

Books

math department, Solomon Lefschetz becomes "the supercharged human locomotive that had pulled the Princeton department out of genteel mediocrity right to the top." Another Princeton mathematician is described as "mathematic" and "elegant."

More worrisome, Nasar substantially exaggerates the role of game theory in economics. In an effort to inflate the importance of her subject, she cites Nash's theory "one of the most influential ideas of the twentieth century" as transforming the young science of economics the way that Mendel's laws of genetic transmission, Darwin's theory of natural selection, and Newton's celestial mechanics reshaped biology and physics in their day.

Unfortunately, game theory has been a major disappointment. Nash's theory did not become the new foundation of economics. There was enormous enthusiasm, but game theory was abandoned by the 1960s, as its lack of predictive power became clear. As a result, despite a revival of game theory in the 1980s, it was crucial for only a few selected problems, such as analyzing oligopolies, where there are a small number of companies plotting against one another.

Moreover, Nasar mentions but does not develop the fascinating notion that modern game theory was invented by a paranoid schizophrenic. "Nash is prone to think of people as out of touch with one another and acting on their own," writes Nasar. Little wonder that game theory assumes little or no competition between individuals and no possibility of empathy or cooperation unless not backed by threats. But most experiments to test Nash's theories find that people give substantial weight to principles of fairness rather than simple self-interest.

Indeed, Nasar devotes very little space to discussion of economics. The only application of game theory she explains at length is its use in recent government auctions of the radio spectrum. And oddly enough, she makes relatively few mentions of other economists until page 354—and this includes a chapter about the winner of a Nobel prize in economics.

In many ways, Nasar reflects the attitude of her subject, who cared more about his status as a mathematician than as an economist. In the end, the portrait of Nash is true—and worth reading.

BY MICHAEL J. MANDER

Mander wrote his doctoral dissertation on game theory.

Tiger Woods defends his title June 25-28 at Cog Hill. Where will you be?



Benefitting the Evans Scholars Foundation.
Sending caddies to college since 1930.

MOTOROLA WESTERN OPEN

Call 847 724-4600 for tickets.

Watch the tournament Thursday and Friday on USA Newtork, 4-6 EDT,
Saturday and Sunday on CBS, 4-6 EDT



ACCESSING INFORMATION



[WHAT YOU HAVE]

By now, everyone knows the modern-day mantra: information is power. The trick is knowing how to make it quickly accessible throughout your company's network. Which is where we come in. Using fibre channel technology, Seagate is developing hardware and software to deliver Storage Networking. A revolutionary concept that'll bring speed, intelligence and a limitless capacity to storage and networks. So that all your information is entirely accessible to everyone who wants it. All the time. It's just one of the ways Seagate is helping to access, process, analyze and protect your information. So you'll have it, the way you want it. To find out more, visit us at www.seagate.com/bn

Seagate, the Seagate logo and the tagline are registered trademarks or trademarks of Seagate Technology, Inc.



[WHAT YOU WANT]

 **Seagate.**

Information, the way you want it.

BY ROBERT KUTTNER

LEFT-OF-CENTER CAPITALISTS, UNITE



BIG CHANCE:
The growing number of left governing parties has an opportunity to temper the excesses of the global economy

If, as expected, the Social Democrats win the September election in Germany, there will be an unprecedented concert of left-of-center governments simultaneously in Washington, London, Paris, Berlin, and Rome. Consider the irony: At the very moment of capitalism's triumph, voters are electing governments to defend a mixed economy and reject what Margaret Thatcher liked to call capitalism "red in tooth and claw." Yet, in their political triumph, these liberals and social democrats have neither the desire nor the means to temper capitalism all that much.

In Britain, Tony Blair's New Labour frankly emulates Clinton's New Democrats. Most of Blair's energy has gone towards reforming Britain's institutions of government—regional parliaments for Scotland, Wales, and Northern Ireland, more power for locally elected governments. Blair has made only minor revisions in Tory economic and social policy, and has assiduously courted capital markets. In Rome, a coalition of socialists and former communists led by the respected Romano Prodi are essentially in the role of technical modernizers. In Paris, the strong franc policy trumps all others.

An SPD government under the charismatic Gerhard Schröder would be quite in step with the others. It would continue the bipartisan march in Germany to full European economic union and seek to reduce unemployment while defending (but not expanding) Europe's middle-class welfare state.

The growing number of left governing parties are constrained in their policy choices thanks to global capitalism, which does not like large deficits, high wages, costly regulations, generous social supports, or the taxes necessary to pay for them. To reassure market forces, the entire West is now running very tight fiscal and monetary policies.

WARY VOTERS. Yet the very dominance of left governments suggests that voters don't trust pure laissez faire. Europe's universal health insurance, its generous pensions, its family supports, and its good mass transit remain popular. Left-of-center parties are stewards of this legacy.

The real problem, in a global economy, is the lack of policy levers to retain the social supports while reducing unemployment. The right argues that the way to create jobs is to follow the U.S. model—deregulate, privatize, and reward private investors. The left re-

sponds that the U.S. model comes at a grotesque inequalities of wealth and in shabby public services, and little in growth for those at the bottom.

Europe seems hemmed in by these ground rules. It can't increase borrowing, or regulation without losing investor confidence. Yet it can't jettison its social protections without losing voter confidence. An intriguing question is whether a concert of left-of-center governments could alter these ground rules. Two are worth altering: the first is macroeconomic. The second is social.

Europe's social model is often blamed for its high unemployment, but Europe in the 1950s and 1960s had effectively full employment despite its social supports and regulated labor markets. The main difference is that today's fiscal and monetary policies are both too tight, leading to slow growth and high joblessness. Fortunately, the European central bank will remove European monetary policy from the notoriously German Bundesbank.

BROADER UNION. With Schröder's election, the major governments would share a new left-of-center ideology. They should call for a commitment to high growth and full employment, reinvent a mixed economy, so that the potential of the Atlantic economies is not strained by the myopia of private capitalism. Full employment would require more supportive macroeconomic climate, as well as structural measures to increase quality of the workforce to assure not just nominal full employment.

Second, the European social model could be broadened into an Atlantic social model, with social standards. Third World countries are accused of leading a "race to the bottom," yet the U.S. remains one of the few advanced countries where people get first jobs, and where 19th-century sweatshops are persisting into the 21st. Europe has something to teach the U.S. higher international floor for national standards would defend them against market pressures to dismantle them.

It's all too rare for left-of-center governments to be in power at the same time. When Reagan and Thatcher ruled, they made most of their common ideology to adapt to their worldview. It would be a shame if Schröder, and Clinton et al. could do no more than Thatcherism with a human face.

Robert Kuttner is co-editor of *The American Prospect* and author of *The End of Laissez-Faire*.



Sorry ... not yet.

But, it does scan, fax, print and copy.

What wakes you up in the morning? What popular drink comes from a roasted bean? What is the biggest export crop in Brazil? Sometimes multiple questions have the same answer. Here's an example from the office: how do you scan, fax, print and copy? Our answer is Aficio, a digital innovation able to perform all four functions with the same high quality as any stand alone machine. Amazing. And, by combining these functions into one unit, your Aficio will save you space, time and money. Which gives you more time for a coffee break. So give us a call at 1-800-83-RICOH or visit our home page at www.ricoh-usa.com, and we'll be happy to answer all your questions.

Aficio
by RICOH



BY GENE KORETZ

BATTING .400 ON WALL STREET

It's riskier in an efficient market

Insights into the stock market's workings can come from unexpected sources. While reading biologist Stephen J. Gould's recent book, *Full House: The Spread of Excellence from Plato to Darwin*, Wall Street economic consultant Peter L. Bernstein was struck by a possible analogy to stock investment performance.

In the book, Gould, an avid baseball fan, observes that .400 hitters have vanished from baseball, even though the grand average of all players' batting

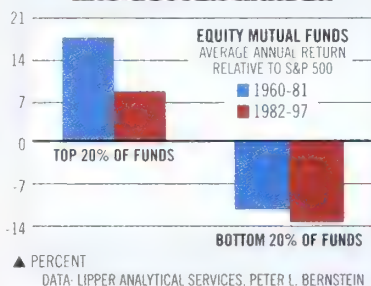
Take the equity mutual funds tracked by Lipper Analytical Services Inc. From 1960 to 1981, the top 20% of funds beat the market by an average 17.5 percentage points a year, but since then, their edge has shrunk to only 8.5 points. "Wall Street's .400 hitters are a vanishing breed," says Bernstein.

As he sees it, two trends explain this development. The first is similar to Gould's baseball thesis—namely, that investment managers have become savvier over time regarding market behavior; risk-reward trade-offs, quantitative analysis, valuation formulas, and a host of other factors. As a result, the market has become more efficient, which means it's much harder to beat the pack.

Secondly, managers have become more conservative. In the face of an efficient market, those who want to bat .400 must take on considerable risk, which means they will bomb in some years even if they do well over the long term. And because clients now measure them against benchmarks such as a stock index, they face censure and possibly dismissal if they fail. "The penalties for strikeouts far outweigh the rewards for home runs," says Bernstein.

For the investing public, he observes, all of this bodes well, since an efficient market with savvy and disciplined managers is best able to cater to its needs. On the other hand, his analysis suggests that a minority of managers still haven't honed their investment skills, since those at the bottom of the heap are doing as badly as ever (chart). "The moral of this story," Bernstein concludes, "is that manager selection may be the greatest investment risk of all."

BEATING THE MARKET HAS GOTTEN HARDER



averages since data-gathering began in 1870 has stayed close to .260. In 9 of the 30 seasons from 1901 to 1930, for example, at least one batter reached .400, and Ty Cobb and Rogers Hornsby made it three times. But in the 67 seasons since then, just one man managed to do it once—Ted Williams in 1941.

What happened? Noting that individual athletes in such sports as track and swimming continue to set records, Gould rejects the idea that batters have somehow become less skilled. Rather, he concludes that opposing players—from pitchers to fielders—have also gotten a lot better, limiting the ability of even the best batters to break .400.

In a coming study in *Financial Analysts Journal*, Bernstein applies this insight to the track records of portfolio managers. Analyzing the historical performances of equity funds, pension and endowment funds, and market letters with model portfolios, he finds that each shows a narrowing in the overall dispersion of returns and, more important, a shrinkage in the margin by which top performers exceed the market.

gued that they inspire some employers to discriminate against workers who don't speak English well. In a study, economist Madeline Zavodny of the Federal Reserve Bank of Atlanta comes up with evidence that such charges may have some validity.

Using 1980 and 1990 Census data, Zavodny analyzes how workers with poor English fared in states that adopted official English laws, compared with workers in those and other states. She finds that annual earnings of men who speak English poorly decline by 12% relative to other men after states adopt official English statutes.

These results don't necessarily mean that official English laws are a bad idea. But they do suggest that such laws could have negative consequences which lawmakers failed to consider.

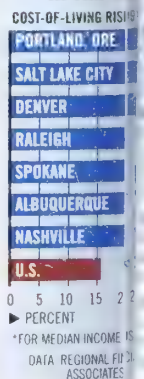
WHERE LIVING CAN BE PRICEY

Try Silicon Valley and Honolulu

Which regions in the U.S. have the highest living costs, and where will they show the biggest jump in such expenses in the 1990s? According to Regional Associates' latest tally, metropolitan areas in California, Hawaii, and the Northeast continue to have the highest living costs in the country. Particularly the regions around Silicon Valley and New York City. Heading the list are San Jose, Honolulu, and San Francisco, where costs are 37% above the national average. A big pricey is the New York region's median of around 20%.

High living expenses don't necessarily mean rapidly rising costs, however. The leaders in 1990s inflation, in fact, are mainly fast-growing metropolitan areas in states such as Colorado, Utah, Oregon, and Washington, where living costs are still within 10% of the national average. In other words, says RFA economist Patrick J. Howie, "prices have been rising fastest in areas where employment has surged and unemployment low—just as you might expect."

INFLATION LEADS IN THE '90s



PASSING LAWS TO PROMOTE ENGLISH

They may foster discrimination

One by-product of the huge surge in immigration in recent decades has been a flurry of U.S. legislative efforts to stress the importance of learning and speaking English. Although the latest example is the passage of Proposition 227 in California, which curtails federal funding for bilingual education, another tack has been for states to adopt English as their official language. Between 1979 and 1996, the number of such states rose from three to 22.

While state official English laws are largely symbolic (a few laws restrict the use of foreign languages in specified government functions), critics have ar-

Intelligence at work



TransCompetition shows you how to transform your corporate culture and organizational style by integrating the best tactics of competition with the new spirit of teamwork.

Eric Hahn, CTO, Netscape Communications, says *Mastering the Art of Creative Collaboration*, "Captures the vision and power of the creative breakthroughs people can achieve when they truly collaborate...."

In *Conquering Uncertainty*, Theodore Modis, president of the international consulting firm Growth Dynamics, explains how companies go through "seasons," and uses this insight to present the first reliable way of insuring the vitality of organizations and careers.

BusinessWeek Books are available at the following bookstores

Powell's Bookstore
8725 SW Cascade Avenue
Beaverton, OR
503-643-3131

Powell's Books
1005 W. Burnside
Portland, OR 97209
503-228-4651

University Bookstore
4326 University Way, NE
Seattle, WA 98105
206-634-3400

Waterstone's Booksellers
Pittsburgh International Airport
Pittsburgh, PA 15231
412-472-3165

Yale Coop
924 Chapel Street
New Haven, CT 06520
800-El-Yale

Tatnuck Booksellers
335 Chandler Street
Worcester, MA 01602
508-756-7644

New England Mobile Bookfair
82-84 Needham Street
Newton Highlands, MA 02161
617-964-7440

Harvard Business School Coop
80 North Harvard Street
Boston, MA 02163
617-495-6592

Harvard Bookstore
1256 Massachusetts Avenue
Cambridge, MA 02138
617-661-0494

MIT Press Bookstore
292 Main Street
Cambridge, MA 02142
617-253-0300

Waterstone's Booksellers
26 Exeter Street
Boston, MA 02116
617-859-7300

Waterstone's Booksellers
Burlington Mall
Burlington Mall Road
Burlington, MA 01803
781-229-2222

Fountain Bookstore
1312 E. Cary Street
Richmond, VA 23219
804-788-1594

Pages for All Ages
1749 W. Kirby
Champaign, IL 61801
217-351-7011

Brent Books & Cards
309 W. Washington
Chicago, IL 60606
312-364-0126

Books & Bytes
415 East Ogden Avenue
Naperville, IL 60563
630-416-0102

Stacey's Professional Bookstores
581 Market Street
San Francisco, CA 94105
800-926-6511

Stacey's Professional Bookstores
219 University Avenue
Palo Alto, CA 94301
650-326-0681

Stacey's Professional Bookstores
19625 Stevens Creek Blvd.
Cupertino, CA 95014
408-253-7521

Cody's Books
2454 Telegraph Avenue
Berkeley, CA 94704
800-995-1180

Cody's Books
1730 Fourth Street
Berkeley, CA 94710
510-559-9500

Kepler's Books & Magazines
1010 El Camino Real
Menlo Park, CA 94025
650-324-4321

Stanford Bookstore
White Plaza
Stanford University
Stanford, CA 94305
800-533-2670

Stanford Bookstore
135 University Avenue
Palo Alto, CA 94301
800-673-2348

Tower Books
2538 Watt Avenue
Sacramento, CA 95821
916-481-6600

Tower Books
7840 Macy Plaza Drive
Citrus Heights, CA 95610
916-961-7202

UCSD Bookstore
9500 Gilman Drive
La Jolla, CA 92093-0008
619-534-3149
800-520-READ (7323)

Ever wonder why more than 10,000 U.S. companies operate 17,000 turbine powered aircraft?

Surprised? More Main Street companies are operating more aircraft than ever before. In fact business aircraft are fast becoming the sign of a well-run company. Why? Among the benefits:

Saving Employee Time

"Efficient employee scheduling" and "employee time saved" are key advantages of business aircraft use. Because business aircraft can fly nonstop between 3,500 small, close-in airports — 10 times the number of locations served by scheduled airlines in the United States — highly efficient employee time management becomes a very real benefit. Additionally, the value of employee time often exceeds its cost to the company by substantial margins, further increasing the importance of employee time savings. Simply stated, business aviation helps a company obtain maximum productivity from its two most important assets — people and time.

Increasing Productivity Enroute

Employee productivity sustained enroute to a business destination — in a secure office environment, free from interruptions, distractions or eavesdropping — can have substantial value to an employer. Group productivity, maximized due to the common availability of club seating and tables, often is unique to business aircraft. Strategizing before meetings and debriefing afterwards are common practices often facilitated and encouraged by business aircraft cabin configurations.

Minimizing Non-Business Hours Away from Home

"Family time" before and after traditional business hours is critical to most employees. Because a stable, supportive family can have an acute effect on employee morale and productivity, scheduling that minimizes time away from home can be a key benefit.

Ensuring Industrial Security

For many companies, the protection of personnel from uncontrolled public exposure alone is justification for business aircraft use. Avoiding eavesdropping, reducing travel visibility, eliminating unwanted and unnecessary conversations and interruptions, all support the use of business aircraft to safeguard company employees and the sensitive information they carry.

Maximizing Personal Safety and Peace of Mind

Turbine-powered aircraft flown by two-person professional crews have a safety record comparable to or better than that of scheduled airlines. The peace of mind that results from complete company control over the aircraft flown, passenger and baggage manifests, pilot quality and training, aircraft maintenance, and operational safety standards is substantial. This benefit also can include the ability to reschedule flights due to weather, mechanical or other factors.

Exercising Management Control Over Efficient, Reliable Scheduling

The near-total scheduling flexibility inherent in the use of business aircraft — even changing itineraries enroute — can be a powerful asset. As aircraft can arrive and depart on the passenger's schedule, often waiting for him or her in the ordinary course of business, meetings can be moved up, moved back or extended

without penalty, risk or unnecessary scheduling pressure. Overnight trips also can be avoided. If managed proactively, benefit can improve business results.

Projecting a Positive Corporate Image

For customers particularly, and often for vendors, the arrival and departure of company employees via business aircraft is the sign of a well-run company, signaling the progressive nature of the organization with a keen interest in efficient time management and high levels of productivity. If used for charitable purposes, significant public service contributions, as well as possible public relations benefits, also can be realized.

Attracting and Retaining Key People (Customers Included)

The right person in the right place at the right time can do everything. Finding and keeping those people can hinge on many factors, including the ability to maintain reasonable travel budgets, maximizing personal productivity and assuring family time.

Reducing Post-Trip Fatigue

Increasing Post-Trip Productivity

Schedules that require late night travel, or longer than necessary trips, often result in post-trip fatigue, damaging productivity the day(s) after the trip. Because business aircraft can facilitate more efficient scheduling, they can minimize this loss.

Optimizing Payroll

Under "rightsizing" initiatives, many organizations have discovered the need to maximize the productivity of the same or fewer employees to accomplish equal or greater amounts of work and ensure their competitive position and long-term success. As business aircraft improve employee time management and efficiency, they can help eliminate the need for additional personnel, reducing payroll costs, and help maximize a company's competitive market advantage.

Truncating Cycle Times

The compound effect of increased productivity and saved time is that more can be accomplished in less time. Consequently, many companies attribute reductions in "cycle times" — when facilities are brought on-line sooner and projects finished faster — to business aircraft use. Although challenging to quantify or attribute entirely to business aircraft use, this benefit often can be substantial.

Charging the Entrepreneurial Spirit

By minimizing or eliminating many of the barriers to travel, business aircraft allow business opportunities to be more fully considered and acted upon. Business cultures and their boundaries change as markets, facilities, and customers in other rural areas of the country — once practically unreachable — thus unconsidered — are newly accessible.

Ever wonder what they're doing with all of them?

(Here's a hint: It's more than you might imagine...)

Employee Travel

g the right person in the right place at the right time can e everything. As most anyone who's been aboard will tell here's no more efficient way to travel — you go where e needed, when you're needed, even changing course e if necessary. Nothing is more e or responsive.

mer Visits —

ldest (and perhaps best) in the Book

o the mountain — trips made to ers, to listen and learn, on their any companies invest heavily in s aircraft travel to their cus-base, facilitating face-to-face nication.

mer Trips — Bringing Your ners to You

el court press; importing cus-ne or prospective customers to les. One of business aviation's wterful uses is to facilitate cus-isits to company facilities or Often, these trips are practical her means of transportation — omers simply won't show ey're picked up in the morning rned home that night.

led Customer Service

h is never enough; improving istomer's reliance on you. the only customer service impression more powerful gular visit is an emergency visit for service or mainte-either case, the perceived commitment, made practical ary via business aircraft, can be palpable.

orporate Fire Truck —

ncy Customer Service

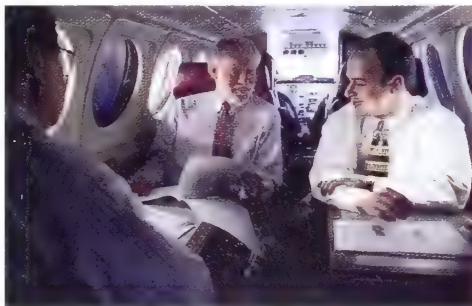
omething's amiss now, nothing means more to a cus-un being there yesterday. As one CEO said, "We get a call say, 'We'll see you at nine tomorrow morning,' and it ows them away." And they're a customer for life.

tarian and Charitable Flights

a good life is about more than just making widgets and urs. Thousands of companies use their aircraft to sup-special Olympics and to carry donor organs or cancer ough the Corporate Angel Network (914-328-1313) harities. And the world is a better place for it.

The Office Enroute

Two missions, really: 1) to get from A to B, and 2) what's accom-plished along the way. Many progressive companies are pro-actively planning to use the time enroute for meetings or prod-uct demonstrations, and reaping the benefits.



*"Year in, year out,
the vast majority
of the top performing
companies — those
returning the most to
stockholders,
including dividends
and capital gains over
the last 10 years —
are operators of
business aircraft."*

Production Teams

What to do when you have one group of engineering and manufacturing wizards and work enough for two? Business aircraft often are used as force-multipliers, leveraging limited manpower.

Sales & Marketing Blitzes

Multi-day, multi-state trips by your company's most effective sales team to really push company products and services. Put your best group on the road on a Monday. By Friday, they've hit nine cities in eight states.

The Surprising Charter Options

Making your aircraft available for charter. With the appropriate license, you can offset aircraft ownership costs by chartering out your aircraft when you don't need them.

Flying Internationally

You don't have to be a global business titan to think beyond the border now-days. North America alone is a big mar-ket, but Central America is just a couple of hours away.

The World as Supplier and Marketplace

Distant markets once thought impractical to consider, much less enter or manage, suddenly are accessible. With new and remarkably long-range aircraft, the global marketplace is here. Some already know it; there are an average of more than 80 transoceanic crossings by business aircraft every day.

Point-to-Point/Vertiflite

Sometimes the greatest potential gains in productivity can be found very rapidly going door to door via helicopter.

The Corporate Shuttle

Regularly scheduled service between major company facilities or customer sites. Not Detroit to Dallas, but nonstop from Tallahassee to Texarkana can make a lot of sense if your two biggest facilities are there. Check your company's travel records.

Got you thinking? (And this is just the short list.)

Find out more. For additional information, call (800) 9-AVIATE



BREITLING

1884



CHRONOMAT GT

Developed in tandem with Italy's crack *Frecce Tricolori* aerobatics team, the CHRONOMAT is now available in a GT (for Grand Totalizer) version, with its unmistakable precision-instrument dial face.

Of all selfwinding chronographs, the CHRONOMAT is surely the most universally popular, cutting through time at will to capture and measure the instant as efficiently as the fabled delta-winged



Mechanical chronograph

Designed for the implacable world of air combat, the CHRONOMAT counts and displays all time spans from 1/5th of a second to 12 hours, providing intermediate and cumulative flying times. Its rider rotating bezel also doubles as a practical, at-a-glance visual gauge. Water-resistant to 100 m (330 ft), its case comes in steel, two-tone finish, steel and gold or solid yellow or white gold, fitted with a BREITLING bracelet of your choice.

AUTHORIZED BREITLING AGENT

BALANO FINE JEWELRY

111 NW Barry Road
Kansas City, MO 64155
(816) 436-6888

100% SOLID GOLD PLATE CASES • 18K GOLD

INSTRUMENTS FOR PROFESSIONALS

AMES C. COOPER & KATHLEEN MADIGAN

HOUSEHOLD AMERICA IS GAINING ON CORPORATE AMERICA

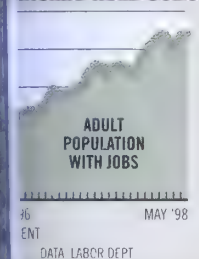
How long can profits keep falling and wages keep rising?

U.S. ECONOMY

After years of picking from an abundance of workers, companies in 1998 are finding it harder to fill their job openings. The shortage sets up an interesting dilemma for the economy and monetary policy: How can output continue to expand without inflationary pressures when the labor cupboard is growing bare?

The increasing shortage of workers was evident in the Labor Dept.'s look at May payrolls. Yes, nonfarm payrolls rose again, but the data showed that a record 64.2% of Americans are already at work (chart). Plus, the jobless rate remained at a 28-year low of 4.3%, proving that the dip to that level in April was no fluke. The jobless rate of college

RECORD PERCENT OF AMERICANS HOLD JOBS



graduates is down to 1.6%, and even among high school dropouts, unemployment has fallen to 6.7%, from 7.5% a year earlier.

The high demand for labor is the key to the reversal of the economic downturn going on between Corporate America and Household America. Wage growth is appreciably strong, and that's one reason why profits fell in the fourth quarter of 1997 and first quarter of 1998. How companies respond will determine the outlook for productivity, economic growth, and inflation (page 34).

CONSEQUENCES

of a tight job market were on the mind of Federal Reserve Chairman Alan Greenspan when he testified before the Joint Economic Committee on May 10. The chairman noted that the economy's combination of strong growth and low inflation has been both "impressive" and "extraordinary." Even so, he said, "I remain concerned that economic growth is running into constraints as the reservoir of unemployed people available to work is drawn down." His main worry is that the demand for labor will keep wage growth so much that productivity gains will be offset by cost increases. Then businesses will begin to raise their prices and bring the low-inflation era to a close. So far, Greenspan said, workers in this expansion have been slow to press for wage gains. While the tone of the speech was not hawkish, Greenspan said that, "Monetary policy might need to tighten if demand were to continue to exhibit few signs

of abating noticeably, thereby threatening to place still further strains on our labor markets."

What Greenspan realizes is that the strength of demand will not slow just because worker shortages put limits on output. If anything, the robust labor markets and their corresponding pay raises are helping consumers to spend at a greater pace than was expected for the second quarter. In addition, Greenspan said that financial conditions such as rising equity prices, available credit, and low nominal interest rates "are accommodating strong domestic spending."

Growth in the second quarter is being held down mainly because of slower inventory growth and a worsening foreign-trade deficit. But robust domestic demand is feeding a virtuous cycle: Income gains lift demand, which creates a bigger need to hire more workers, who get ever larger paychecks.

THE MAY EMPLOYMENT REPORT

is the last one to be released before the Fed's next policy meeting on June 30 and July 1. And the data make clear that while Asia is hurting the goods-producing sector, demand for labor in the service sector remains quite healthy.

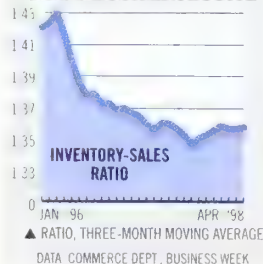
Payrolls grew by 296,000 in May, and April's gain was revised up to 302,000, from the reported 262,000. So far in this quarter, payroll gains are averaging 299,000 a month, much higher than the monthly increase of 208,000 in the first quarter.

Manufacturing jobs, however, fell 26,000 in May, the third drop in four months. The workweek recovered a bit, rising 18 minutes to 41.7 hours, but that gain followed four consecutive monthly drops in the workweek.

The factory layoffs reflect the fallout from Asia, as well as the slowdown in inventory-building in the second quarter after a record runup in the first quarter. Factory inventories in April rose 0.5%, but a large chunk of that was aircraft. At the wholesale level, inventories unexpectedly fell 0.6% for the month.

Before 1998, factory shipments grew far faster than the pace of inventories. Now, the growth rates are in better alignment, and the ratio of inventories to sales remains lean (chart). That suggests that while inventory

FACTORY INVENTORIES DON'T LOOK EXCESSIVE



growth is probably slowing, manufacturers do not consider their stockpiles excessive.

At the same time, wholesale inventories are outpacing sales. But the runup probably reflects an influx of foreign-made goods. So a drawdown in wholesale inventories may result in some slowdown in imports.

Foreign trade, however, is most likely subtracting from real gross domestic product growth in the second quarter. And the ongoing surge in the U.S. dollar hints that the trade gap could deteriorate in the second half as well. The dollar has strengthened some 12% against the yen since February, commanding more than 140 yen since June 8. The dollar's appreciation worsens the outlook for U.S. exporters at a time when demand from Asia is already falling.

The weakness in manufacturing has kept the total number of hours worked so far in the second quarter about even with its first-quarter level, but hours worked in the private-service sector are growing at a 2% annual rate, the same pace expected for overall GDP growth.

AND IT IS SERVICE PROVIDERS who are the biggest source of new jobs, with 291,000 jobs added in May. The healthy demand for service workers means that wage gains are rising faster in services than in factories. The average hourly wage in the nonfarm sector increased 0.3% in May, to stand 4.3% above its year-ago

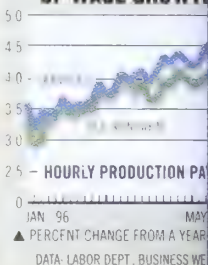
level. Service pay, also up 0.3% in May, has risen over the past 12 months (chart).

Wages clearly are growing faster than either inflation or productivity gains. The Labor Dept. revised first-quarter data to show that output per hour grew at an annual rate of 1.1%, better than the report of 0.2%. But compensation grew at a 4.2% so unit labor costs grew 3.1% last quarter.

Over the past year, unit labor costs have risen 2%, leaving businesses with some tough choices. Companies can continue to watch their profit margins fall, or they can try to cut costs or raise prices. For consumers, of course, the larger pay raises support bigger increases in spending.

In fact, because consumer fundamentals look so strong, it's hard to project what will slow this economy. In mind, there is no immaculate slowdown. Without a firm step on the brakes, such as a stock market reaction, greater problems in Asia, or higher short-term interest rates, this economy will not lose much power. And most worrisome to the outlook for profits and costs, growth will not ease enough to let the labor markets anytime soon.

SERVICES ARE PULLING UP WAGE GROWTH



BRITAIN

INTEREST RATES: THE PRESSURE IS STILL ON

The Bank of England crossed up just about everybody by raising its base lending rate by a quarter point, to 7.5%, on June 4. Most economists had thought that interest rates had peaked or would remain stable for several months.

The BOE, though, is worried about pay raises and a weakening sterling. Average wage gains rose from 4.6% in January to 4.9% in February (chart), and initial data suggest a 5.4% rate in March.

This is well above the 4.5% or so that the bank thinks is acceptable. Moreover, since the end of March, sterling has slid nearly 3% against the U.S. dollar and 7% vs. the Deutschmark. While a cheaper sterling will help

beleaguered British exporters, the strong pound of the last two years has been key to keeping inflation under control. Overall inflation is running at 4%, well above the 2.5% target, but underlying

inflation, with tax increases and mortgages stripped out, is just 2.2%.

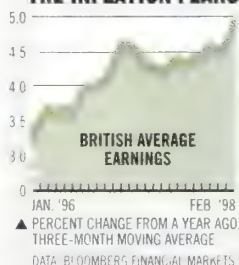
The central bank's new Monetary Policy Committee now has a tricky job. While most economists expect real gross domestic product growth to slow from 3.1% in

1997 to just above 2% for 1998 and somewhat below 2% for 1999, it is not yet clear that the economy is cooling down enough for the BOE. True, exports are dropping, and the jobless rate is falling at a

slower rate. But consumer spending is set to grow 4% or more this year. And unemployment is at a historic low of 4.8%. More discomfiting data may prompt another hike in short-term rates, which are already the highest in the industrialized world. The Monetary Policy Committee has been finely balanced between two groups: those who argue for tough action now to avoid even sharper rate rises later and those who prefer to wait for more data. But a June 10 bank report shows that in May, six of the members were against raising rates, while one even wanted a rate cut. That's one reason why the June hike was so surprising. Apparently, the recent developments on the wage and currency fronts changed some minds.

By Stanley Reed in London

WHAT'S BEHIND THE INFLATION FEARS



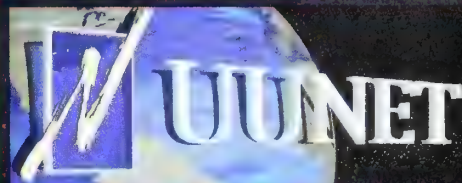
1997 to just above 2% for 1998 and somewhat below 2% for 1999, it is not yet clear that the economy is cooling down enough for the BOE. True, exports are dropping, and the jobless rate is falling at a

There are over 7500 ISPs.

*But only one of them is an
Internet Communications Company for business.*

ADVANCING THE INTERNET

UUNET® our goal is to help your company communicate more effectively. That's why we're advancing the Internet, making it bigger and better. We're growing our network by a thousand percent each year, adding thousands of miles of fiber-optic cable and hundreds of thousands of modem ports, connecting the US, Europe and Asia via undersea cable and constantly upgrading our hubs to keep pace with explosive growth in Internet traffic. This advanced network allows us to offer innovative services like Internet-based faxing and multicasting. And helps us unite the world of business, enabling thousands of companies to do more, better and faster. So call 1-888-886-3842, visit <http://info.uu.net/growth> for more information. Because when it comes to business on the Internet, there's only one Internet Communications Company — UUNET. The Internet At Work.™



A WORLD.COM COMPANY

THE ECONOMY

NOW WORKERS ARE GETTING THE GRAVY

Businesses suffer a reversal of fortune as higher labor costs crimp earnings

BusinessWeek **ONLINE**

For daily business news, visit businessweek.com or AOL: Keyword: BW

When Hewlett-Packard Co. reported a 13% drop in its second-quarter earnings, the company pointed to two causes, both beyond its control: falling PC prices and Asian flu. But that's not the whole story. Partly due to rising labor costs, HP's operating expenses jumped 18%, while sales increased 16% from a year ago. Now, insiders say CEO Lewis E. Platt is freezing hiring and cutting travel and discretionary spending, and some units may shorten their workweeks to cut costs.

Hewlett-Packard isn't alone. Labor costs are now rising faster than productivity gains can offset: Unit labor costs, or wage increases minus productivity gains, rose 3.5% in the fourth quarter of 1997 and the first quarter of this year, the fastest two-quarter increase in five years. "It's a reversal of how things have been," says HP econo-

mist Richard C. O'Brien. "Now all kinds of productivity numbers we're seeing just don't compensate."

And with businesses hard-pressed to pass on price hikes, companies in Corporate America are scrambling to preserve the bottom line. For much of the 1990s, U.S. companies invested in restructuring their way to record profits—often at the expense of wages and job security. From 1992 to 1995, productivity rose more than 20% annually as companies announced some 2 million layoffs. Real wages stagnated.

NO CUSHION. But now the tide is turning. Labor is no longer cheap, plentiful, or docile, benefit costs are rising faster, and generating earnings growth will be a lot tougher. Higher wages mean that shocks such as the Asian crisis will be harder to handle and management mistakes will be exposed a lot faster. And companies' responses

BUSY IN MARYLAND: SERVICE WAGES ARE UP 4.8% FROM A YEAR AGO

share is rising and profit's share is falling. "What we are witnessing is the normal cyclical increase in labor's share of the pie," says economist Henry Wilmore at Barclays Capital Inc.

The upside of this reversal of fortune: Workers who once felt left behind by the economic boom are shopping with a vengeance (page 37). Unemployment in May held at April's 28-year low of 4.3%, and workers on the lower rungs of the payroll are feeling the updraft. Yearly growth in hourly pay of production workers in May sped up to 4.3%, a nine-year high, led by retailing and an array of services. And with inflation down to 1.4%, real wages are growing at their fastest clip since the 1970s. One sign of this buying power: May car sales hit a record 16.4-million annual rate, and April sales of new homes reached an all-time high of 888,000.

But for many businesses, it could be a profitless prosperity. Despite robust consumer demand, few companies have pricing power. Polaroid Corp. and Motorola Inc., along with HP, are only the latest in a growing list of companies posting weaker-than-projected profits. Each has its own problems: Polaroid, which on June 9 warned investors about second-quarter profits, is suffering from excess inventory at distributors, while Motorola is being hurt by weakening demand and global pricing pressures—but

the mix of higher costs and weak pricing only makes matters worse.

"CAN'T RAISE PRICES." Already, the growth in earnings of the 500 companies in the Standard & Poor's stock index has ground to a halt. And the Commerce Dept.'s roundup of profits, covering 20,000 companies, shows aftertax earnings declining in both the fourth and first quarters, even in a booming economy. Those were the first back-to-back drops since the 1990-91 recession.

The Commerce numbers imply that smaller companies, where labor shortages are acute, are especially hard-hit by the cost squeeze. Roger J. Sustar, owner of Fredon Corp., a precision ma-

chining company in Mentor, Ohio, has seen pay of his semiskilled workers jump in the past two years from \$9-\$10 per hour to \$12-\$14. "We can't raise prices," he says, "because customers will just go overseas." Moreover, even with higher wages, Sustar is having a hard time holding on to his best employees.

There are pockets of relief from the cost squeeze, mostly among service industries. Services are largely isolated from overseas competition and are showing increased pricing power, while manufacturers of goods have no such luxury. That situation has helped convince General Electric Co. that it

should keep pushing into financial services and other high-margin service businesses that offset low margins in basic manufacturing operations.

The pressure to raise prices in services is especially intense. Service wages are up 4.8% from a year ago, racing ahead of productivity gains. So hotel companies, cable-TV operators, and freight haulers are hiking prices aggressively, according to a survey of analysts at Salomon Smith Barney. Many airlines are also jacking up fares and racking up record profits. One with trouble on the horizon, however, is Northwest Airlines, which has seen a plunge in Asian traffic and faces union demands for long-awaited wage hikes (page 36).

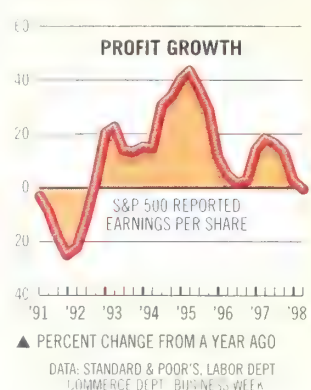
But for many companies, especially manu-

facturers, there are no easy answers. Often, they have already cut costs to the bone while investing in computers and other equipment. Now, the gains from past cost cuts are slowing. Eastman Kodak Co. went through several rounds of cost slashing and layoffs in the early 1990s, hoping to improve its competitiveness with Japan. But after no wage increases in 1996 and 1997, Kodak was forced to raise wages 4% this year to retain its best people, even as Chairman George M.C. Fisher announced another \$1 billion in cost cuts and 19,900 layoffs. And once again, General Motors Corp. is butting heads with the United Auto Workers over GM's con-

REAL PAY IS SURGING...



...AND PROFITS ARE FADING



labor costs will affect everything from inflation to capital spending to the market. Already, stock prices have been sliding sideways since mid-May, re-igniting jitters that earnings expectations are overly optimistic.

On June 10, Federal Reserve Board Chairman Alan Greenspan singled out labor markets as a cause for concern in his otherwise exuberant congressional testimony about the economy. "Tighter economic policy may be necessary to help guard against a buildup of pressures that could undermine current prosperity," he said.

The stage of an economic expansion gains amid weaker profits is surprising. From 1991 to 1997, workers' pay fell to the lowest share of income since 1968 while the share going to profits rose to the highest since that year. Now, labor's

tinuing efforts to cut costs (page 38).

In an effort to cope with rising costs, companies are trying a variety of measures, such as one-time bonuses in lieu of higher wages as well as stock options and flexible work hours, but these tricks eventually add to costs. And some companies are simply shedding workers.

Capital spending could also get the ax at some businesses. Already, the imbalance is growing between abundant capacity and scarce labor. Industrial capacity has been rising roughly 5% a year, the fastest in 30 years. A key danger is that a dearth of profits could spark a sharp stock-market correction that would take away the low-cost eq-

Without pricing power for many businesses, it could be a profitless prosperity

uity financing that has supported capital spending, which in turn has helped drive the seven-year business expansion.

Expect the bottom line to sag. "The margin squeeze is intensifying and likely to continue through the second half of the year," says J.P. Morgan & Co. econ-

omist Robert E. Mellman. Along with wages, such benefit costs as medical insurance premiums are speeding up. "Some large providers are already exceeding 1999 quotes by double-digit percentages," notes Goldman Sachs economist John M. Youngdahl.

The shifting fates of businesses and households will continue until labor markets loosen up enough to halt the speedup in wage growth. But without fatter pay raises pumping up demand, that could take a while.

By James C. Cooper in New York with Peter Burrows in San Francisco, Peter Galuszka in Cleveland and bureau reports

NORTHWEST WORKERS GAVE. NOW THEY WANT TO TAKE

Want to see where the profit squeeze is really beginning to hurt? Check out Northwest Airlines Inc. When 1998 began, its four-year run of record profits was already in jeopardy. Contracting Asian economies were choking off traffic on routes that account for 30% of Northwest's sales. Then a freak

made five years ago to keep the then-struggling carrier alive. "The unions are acting fairly confidently," says John Budd, an associate professor at the University of Minnesota's Carlson School of Management. "The confidence is stemming from the job market and the economy."

The fight has the nation's fourth-

rival carriers. While the industry should see a 5.5% jump this quarter in revenue per available seat mile, Northwest will get only a 1% increase, says Credit Suisse First Boston analyst Thomas S. Schreier. On June 3, Northwest warned Wall Street that its second-quarter earnings would likely be "significantly



hailstorm hit the carrier's Minnesota hub. The result: Analysts cut second-quarter earnings projections by about \$10 million.

But now the airline, based in St. Paul, Minn., faces a bigger problem. A deteriorating labor situation has pilots talking strike and mechanics delaying planes. With contract talks nearing the end of their second year, and labor markets tight, Northwest's unions expect to make up for the wage cuts and other concessions they

largest carrier reeling. Mechanics are adhering strictly to contract rules, causing delays that alienate passengers. More than 99% of pilots have voted to authorize a strike. The flight attendants' union has blasted Northwest ads that criticize the pilots' negotiating strategy, calling them "exceptionally disgusting."

The fallout: Delayed and cancelled flights dropped Northwest to last in on-time performance in April and are causing corporate clients to turn to

BIG STICKLERS

Mechanics are adhering strictly to contract rules, causing delays and alienating passengers

low" last year's \$131 million second-quarter profit. At the bargaining table, the pilots have rejected the latest company proposal, which called for salaries to be equal to pay averages at United,

American, and Delta. "We can't adopt a labor-cost structure that would take us out of line with our competition," says Ben Hirst, Northwest's senior vice-president for corporate affairs. But the pilots want a 9% wage hike to make up for the five raiseless years and 5% annual boosts over the life of the contract, says Paul Omodt, spokesman for the Northwest chapter of the Air Line Pilots Assn. The two sides began more talks on June 10.

The mechanics are further along than the pilots, but they remain far from the company on pay and work rules. The flight attendants are not even that far along. So that hailstorm isn't going to provide the only dark clouds over Minnesota this summer.

By David Leonhardt in Chicago

By Aaron Bernstein

WHY WAGES AREN'T GIVING THE MARKET THE WILLIES

Corporate America has been on an extraordinary roll in the late 1990s, with profits hitting new highs quarter after quarter. Now, the profit party seems to be winding down. Earnings are still healthy, but are no longer growing so fast. Wages and employment, on the other hand, are still on the rise.

Normally, this scenario would send the stock market into a fury of sell-off. And, clearly, the markets are a bit skittish. But the Street greeted the most recent surge in wage gains and job growth as a signal, sending the Dow up 167 points on June 5.

It's because the market has recognized that Corporate America may need to flush workers to keep the economy humming. With the crisis biting manufacturing and exports, soaring demand from U.S. consumers is doing a well-timed lift, while imports and commodities are keeping inflation in check.

UPWARD MOBILITY. There's also an element of fairness in these trends. Real wages for nonsupervisory workers—who comprise 80% of the workforce—have risen by more than 20% adjusted for inflation, in each of the past two years, according to the Bureau of Labor Statistics (BLS). In 1997, average pay was at \$435 a week, average pay has this year topped its 1988 peak at \$435. Household income tells a similar story. It hit \$35,500 in 1996, the year available, an inflation-adjusted gain of some 4% since incomes had been falling in 1993, says the Census Bureau. Families undoubtedly took further strides in 1997—but it wouldn't have to be above \$36,600, adjusted for inflation, to beat 1989's peak. Now, upward mobility is being aided by the poor, as well. Even low-skilled workers, who have suffered the most from globalization and technology advances, are finding

jobs. Pay hikes are strong at the bottom, too. In fact, the inflation-adjusted weekly pay of workers in the lowest quarter of wage-earners jumped by an impressive 3% in the 12 months ended in March, according to an analysis of BLS data by the Economic Policy Institute. Mean-

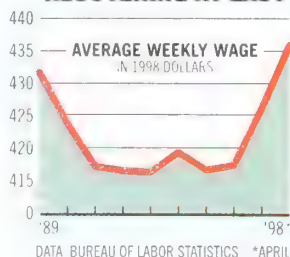
while, the earnings of those in the top quarter climbed by 1% during this period. The key question is whether the economy can afford these wage hikes over the longer run. Some of the increases may be a redistribution of income from profits. If so, companies and investors lose out, but the overall economy doesn't—unless the higher wages trigger inflation. And, given the uncertainty about the global economy, even inflation hawks are hesitant to demand that the Federal Reserve Board jack up rates to preempt a price spiral. "I'm worried about wages, but if the Asian slowdown and other factors knock wind out of the economy, we may dodge the inflation bullet," says Joel L. Prakken, chairman of Macroeconomic Advisors LLC in St. Louis.



SHADES OF THE GOLDEN '50S?

Still, to be sustainable, pay can't outpace productivity, at least not for

PAYCHECKS ARE RECOVERING AT LAST



extended periods. And economists are divided on whether it will. Some believe the 2% productivity rate reached in 1996 and 1997 was driven largely by rapid gross domestic product growth, which caused output to race ahead of hiring. Thus, a slowdown could be inflationary. Warns Fleet Financial Group chief economist Nicholas S. Perna: If Asia slows U.S. economic growth to 2%, "productivity gains could drop to zero, at least for a year or so." But other economists, such as David A. Wyss of Standard & Poor's DRI, a unit of The McGraw-Hill Companies (which owns BUSINESS WEEK), think productivity will climb at a respectable 1.5%. One reason: Capital investment remains healthy, sustaining efficiency gains.

If Wyss is right, the economy could undergo the proverbial soft landing: Profit growth will slow, the stock market will back off its highs, and consumer spending will ease. All this would eventually feed back to the labor markets, curbing job growth and preventing wage gains from accelerating faster than productivity.

The economy right now is experiencing both hot domestic demand and the chill from abroad. If the two don't continue to balance out, wage growth may turn out to be excessive. But if the Asian downdraft persists, executives will be grateful that workers have enough money in their pockets to keep the economy rolling and profits growing, albeit at a slower pace.

Bernstein covers labor for BUSINESS WEEK in Washington.



THE ECONOMY

I'LL TAKE THAT AND THAT AND THAT AND...

Income is up, and retailers are happy—especially discounters

Listen closely, and you can hear it: ka-ching! Cash registers are ringing at U.S. stores—making the sweet music that retailers have been hearing for five months now as consumers dispose of bigger chunks of their rising incomes. At this pace, figures Carl Steidtmann, chief economist at consulting firm Management Horizons, 1998 retail sales will increase 6%, vs. about 4.5% in 1997.

Virtually all types of retailers appear to be benefiting. But no one's gaining more than discount chains, which began dominating retailing when the economy was weaker and now are grabbing share from department stores and specialty outlets as the economic boom finally reaches less affluent Americans.

VALUE-HUNGRY. With low interest rates, a booming stock market, rising real wages, and almost no inflation, consumers have been shopping like mad. Boston-based consultant Primark Decision Economics Inc. figures consumer spending will be up 4% this year, the strongest since 1986.

A big chunk of those dollars will land at discount chains. According to a new

study from LJR Redbook Research, discounters now command a hefty 63.6% of the country's \$270 billion in retail sales, up from 43.4% in 1986. "Today's shoppers love discount stores," says John B. Menzer, chief financial officer at Wal-Mart Stores Inc., where same-store sales in the discount division rose 10.2% for its fiscal year's first four months, the first double-digit gain in six years. "They appreciate value."

Do they ever. And as discounters have spruced up their stores and merchandise, they are even winning a growing following among higher-income consumers. A recent survey by WSL Strategic Retail, a consulting and market research firm in New York, shows that 90% of shoppers from house-

holds earning more than \$70,000 a year now do some shopping at discount stores. That's up from 45% five years ago. Says retail consultant Kurt Barnard, president of *Barnard's Retail Trend Report*: "What we're seeing is cross-shopping—consumers buying one item at Neiman Marcus and another at Wal-Mart or Dollar General."

Meanwhile, as lower-wage earners

find that they, too, **BIG SPENDING** now have more to *A Kmart in Michigan* spend, they're crowding the aisles at discounters. According to LJR Redbook, the first five months of 1998, discount stores racked up 5.6% same-store sales growth, vs. 4.6% for all retailers. May alone, same-store sales jumped at Wal-Mart, 6.9% at Kmart Corp., at Target, and 14% at Dollar General Corp., which targets shoppers with incomes under \$25,000. Overall, however, retailers saw sales increase 7.1% in **CLOTHES ENCOUNTERS.** The valuation does mean tight margins. Retailers concede they must slash prices to attract shoppers coming. "Prices will continue to come down, and as a result, gross margins will continue to be under enormous pressure," says Kmart Chairman Dan Hall. Still, if volume stays high, it should lessen margin pressure.

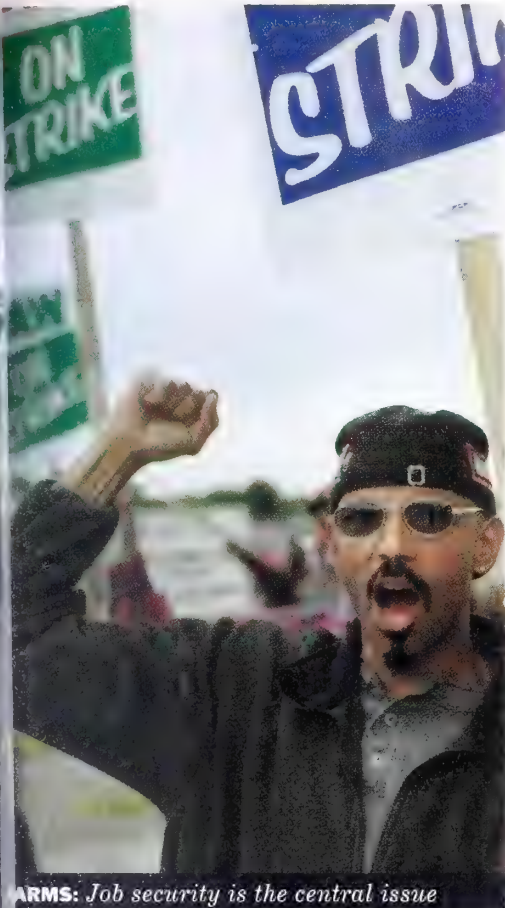
So what's selling? Sporting goods, grills, patio furniture, home electronics and appliances. Discounters are doing well in apparel: Kmart's *Smith line* and Wal-Mart's *Kathie* brands are moving briskly, for example. "Apparel has been sensational," says David D. Glass, chief executive of Wal-Mart, where same-store apparel sales are up 20% year-to-date.

Retail execs hope such consumer demand will carry over into the second half. David Kelly, senior economist at Primark, predicts strong second-quarter consumer spending, but says it's "inevitable" that the buying frenzy will wind down in the second half—whether from Asia or just a slower economy. Until then, let the cash registers ring.

By Stephanie Anderson For Dallas and Keith Naughton in Bentonville with Wendy Zellner in Bentonville, Ark., and bureau reports

DISCOUNTERS DOMINATE





ARMS: Job security is the central issue

GMIRE FLINT

look for any winners in
atest strike

al Motors Corp., which had 11
ces and job actions in 1996 and
7 alone, had almost a year of la-
e—until war broke out on June
when 3,400 United Auto Work-
bers struck GM's Flint stamping
thin days, the strike had spread,
000 workers at seven assembly
d four parts factories across the
1 Canada. And another Flint
lity was threatening to strike on
which could lead to the shut-
most of GM's assembly plants.
says it's all about \$300 million
was supposed to invest in Flint
de the factory and save jobs.
t's all about the union's failure to
ork rules to boost productivity.
s a third view: What it's really
market share. How so? Because,
f inching back up to 35% of the
ket, as GM executives were hop-

ing to do when they made
the contractual commitment
to invest in Flint, the com-
pany is struggling to hold
on to a 31.6% slice. To Fur-
man Selz analyst Maryann
N. Keller, the fate of the
Flint plant was sealed by
the declining share, coupled
with rising efficiency at other
stamping operations. Un-
less GM has a surge in de-
mand, within five years it
will have one stamping
plant too many: Flint. "This
is a rear-guard action by
the union to preserve jobs
that probably can't be pre-
served," she says.

GM declined comment on
the plant's future, but a
company spokeswoman said
that progress depends on
the union's agreement to
change work rules.

The new strike is part of
a longstanding stalemate.
Workers fear that if they
help the company become
more productive, it will
mean losing their jobs.
They point to GM's Ander-
son (Ind.) lighting factory,
where workers made con-
cessions in 1996 and 1997

to save jobs, only to have GM sell the
plant. "GM's lack of credibility is fueling
the situation," says Harley Shaiken, a la-
bor professor at University of California
at Berkeley. "Workers think they've gone
the extra mile, then feel betrayed."

The result is that GM is still by far
the least efficient of the Big Three.
Meanwhile, strikes have pounded GM's
bottom line—cutting \$1.5 billion from net
income in 1996 and 1997 and helping to
erode that precious market share.

Things could get even uglier. On June
10, Bloomberg News reported on secret
GM memos that confirm auto workers'
worst fears: plans to export more pro-
duction overseas. The documents from
the office of Mark Hogan, GM's small-car
operations czar, lay out a plan to shut
the 6,400-employee Lordstown (Ohio) as-
sembly plant and shift jobs to Mexico, ac-
cording to Bloomberg. GM refused to con-
firm the documents exist. But, says
Hogan: "General Motors is always ex-
amining ways to improve its manufac-
turing. We're not about to comment on
future design or manufacturing plans ex-
cept to say that we have not made a
decision about the Lords-
town plant." Talk like that
won't lead to peace any-
time soon.

*By Kathleen Kerwin
in Detroit*

DETROIT

A GRAND (CHEROKEE) PLAN

Already-hot Chrysler bets
big on its retooled sport-ute

It was the moment of truth for the
engineers behind Chrysler Corp.'s
three-year, \$2.3 billion investment in
the 1999 Jeep Grand Cherokee. A week
before the model's June 16 unveiling,
Chrysler Chairman Robert J. Eaton was
putting the new sport-utility vehicle
through its paces on Chrysler's secret
test track in Chelsea, Mich. Would it
pass muster? "This," said a smiling
Eaton, "is definitely a winner."

He's got to hope so. While Chrysler
has had strong sales so far this year—
up 27% in May, vs. 12% for the overall
U.S. market—it has a lot riding on the
update of what had been its crown jewel.
As the auto maker races toward its
merger later this year with Daimler
Benz, analysts see the new Jeep as piv-
otal to earnings in Chrysler's second
half.

"NOT MUCH LOYALTY." A lot has changed
since the Grand Cherokee debuted in
1992 and took command of the high-end
SUV segment. Specifically, models such
as the Lexus RX300 and the Mercedes
M-Class have arrived. "There's not much
loyalty in the SUV market anymore,"
says Michael W. Lowe, a Jeep dealer in
Atlanta. "We've lost customers to Mer-
cedes, and I'm not sure the changes on
the new Grand Cherokee are dramatic
enough."

Still, Wall Street thinks Chrysler is
on a roll. According to First Call, the
consensus among analysts is for the car-
maker to earn \$900 million in the second
quarter—nearly twice the net in the
strike-plagued '97 quarter. At that pace,
profits would add up to \$3.4 billion on a
record 3 million vehicles in 1998.
"Things will only get better with the
new Grand Cherokee," says Scott
Merlis, a Westport (Conn.) auto analyst.
If he's right, Chrysler and Daimler could
drive off on a happy honeymoon.

By Bill Vlasic in Detroit

**NEW BABY: THE
LATEST
JEEP**



PHARMACEUTICALS

CAN MERCK GROW WITHOUT A MEGAMERGER?

Even a batch of new drugs may not be enough

For a stock that was once an icon for investors and a company that's arguably the premier drug-discovery juggernaut, Merck isn't getting much respect. Drug stocks trade at almost 29 times 1999 earnings, but Merck & Co.'s price-earnings ratio is only about 26, even after a recent runup. The reason: Wall Street expects a big slowdown in Merck's growth rate after 2000 as a number of its drugs go off patent and lose a lot of sales to cheaper generic versions.

Merck Chairman Raymond V. Gilmartin is now reshaping Merck's portfolio, in moves that may help win back Wall Street. What Gilmartin won't do, he insists, is follow the crowd and make a big acquisition. For now, he's betting on a series of new drugs in Merck's pipeline. And he is undoing two key joint ventures to buttress growth. In May, he struck a deal to sell Merck's interest in a slow-growing joint venture with DuPont Co. for \$2.6 billion. Gilmartin is expected to ink another agreement the week of June 15 to restructure a venture with Astra. Sources say the deal could give Astra control of Astra Merck Inc., with the option to buy Merck out entirely.

BOLDER MOVES. The Astra deal could fetch Merck a pretty penny. Astra seems to need to revamp the venture more than Merck. Analysts say the Swedish company is a natural candidate for an industry merger, but because the Merck joint venture has U.S. marketing rights to most Astra drugs, Astra has less to offer a potential partner. Stephen S. Tang, who heads A.T. Kearney Inc.'s U.S. pharmaceutical consulting practice, says Astra will pay Merck a premium to undo the venture. The talks may still falter, but most analysts think a deal could net Merck more than \$10 billion over several years. The market is optimistic that Merck will come out on top; the stock rose 9% from June 4-10.

What will Merck do with the money? Most analysts and investors think the company will accelerate the \$5 billion share buyback it announced last year. In addition, some money could go to investments in small pharmaceutical and biotech companies, a strategy that Gilmartin has been pursuing. He has also stepped up efforts to get licensing rights

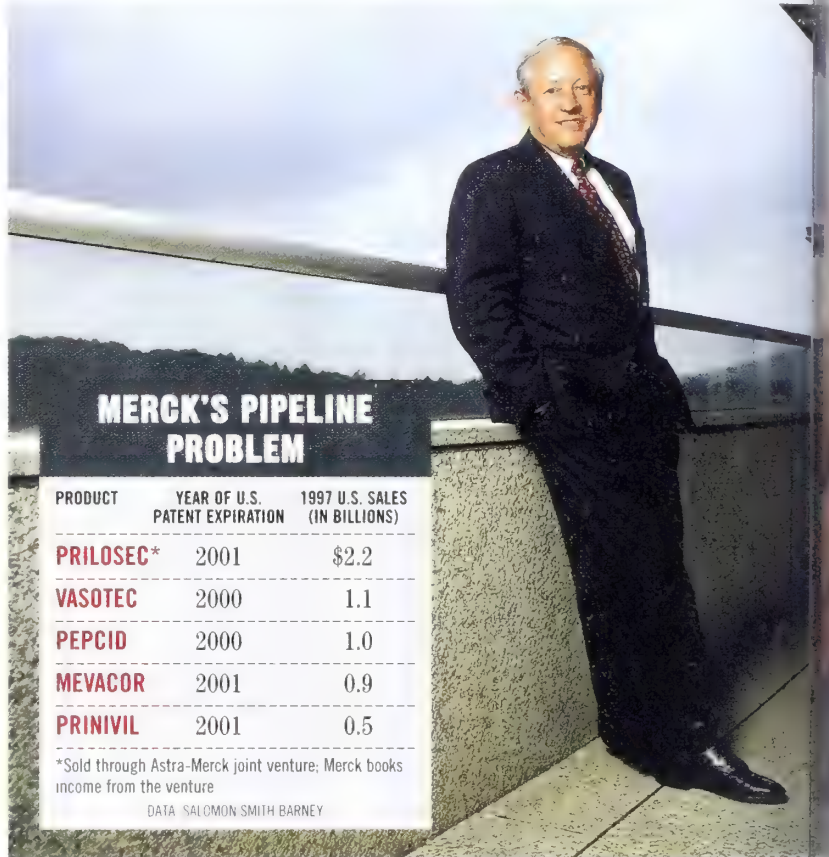
to early-stage compounds being developed by smaller companies such as Boston-based Biogen Inc. Analysts say Merck will do even more of that.

While the DuPont and Astra deals should give Merck a shot in the arm, they hardly solve its problems. In the next four years, patents will expire on

products such as cholesterol reducer. In recent years, Merck hasn't gone after such deals. "If it were me, I'd sell Bear, Stearns & Co. analyst Joseph Riccardo, "I'd hedge my bet."

For now, Gilmartin is betting on Merck's pipeline. The company is set to debut this year, and for a new arthritis drug, Vioxx, which could hit the market next year. And Merck scientists are very excited about a new class of antidepressants in development that analysts say, could be ready as early as 2001.

Still, as Merck's new products



five of the company's biggest sellers, including Astra Merck Inc.'s ulcer medication, Prilosec, the best-selling drug in the world. And drugmakers often lose up to 80% of the sales of a drug to generic versions after patents expire. Indeed, many on Wall Street aren't convinced the new products will be enough. Cowen & Co. analyst Stephen M. Scala says net income will grow just 6% in 2002, down from 1997's torrid 19% pace.

That's why some would like to see Gilmartin make even bolder moves. Pfizer Inc., has hit the jackpot by striking co-marketing agreements with rivals for hot

CEO GILMARTIN: Undoing old deals and building up a hoard of cash

there is little margin for error. Jap Baker, a portfolio manager at ARK Management, a Merck institutional investor, says shareholders will be wary to see if these new drugs adequately set those going off patent. "If in 10 years we don't see that there's enough in the pipeline," he says, "there's no question there will be pressure on Gilmartin to do a deal." If Gilmartin can avoid that, Merck may regain its icon status.

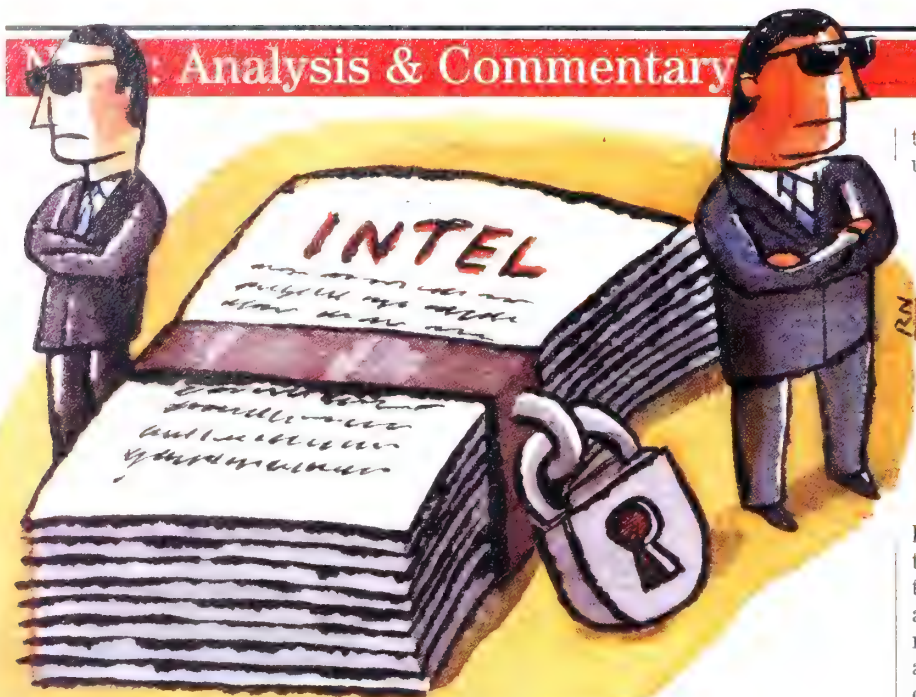
By Amy Barrett in Philadelphia

Introducing The Document Exchange.
The best of UPS by an entirely new route.

Now there's a revolutionary way to send documents and files quickly and securely over the Internet. Welcome to The UPS Document Exchange.™ At exchange.ups.com you can access free software that lets you address any digital file, choose the level of security you need, and send from your desktop. You get tracking and delivery confirmation. Your recipient gets a universally readable file. And neither one of you has to wait for a delivery, stand by the fax machine, or struggle with e-mail attachments. It's fast. It's easy. And it's exactly the kind of innovation you'd expect from UPS.

MOVING at the SPEED of BUSINESS.
www.exchange.ups.com





TRUSTBUSTERS

HOW STRONG IS THE CASE AGAINST INTEL?

The government's narrow suit may be fundamentally flawed

Federal trustbusters learned a hard lesson a generation ago after decade-long litigation against IBM and AT&T: Think small. That's why the Justice Dept. has filed a narrow suit aimed at Windows 98 while it continues to investigate a broader case against Microsoft Corp. And that's why the Federal Trade Commission's June 8 complaint against Intel Corp. is limited to charges that the chipmaker stifled competition by punishing three customers in patent disputes.

The FTC's legal strategy is clear: Seek a swift victory in a case where key facts aren't in dispute, then build on that triumph to pursue a wider probe. The commission's larger concern is whether Intel leverages its dominance in microprocessors to enter new markets, such as graphics chips. The FTC is also looking at whether Intel is shutting out rivals by using proprietary standards. The agency is still gathering evidence on those questions and hopes a tough stance now could encourage rivals to give evidence to build the bigger case and induce Intel to back off its hardball tactics. Says FTC Bureau of Competition chief William J. Baer: "When we have evidence of anticompetitive behavior, we are ready to act."

Sounds like a smart approach. But the FTC's current case, say legal analysts, is no legal cinch. The FTC will have a hard time proving that the customers Intel acted against are competitors or potential ones. Even more difficult: The FTC will have to prove that the tactics Intel employed against these three would actually dampen competition in microproces-

NO CINCH It won't be easy to prove that Intel tightened its grip on the market if it did more damage to customers than to rivals

sor technology. If Intel can force customers and others to turn over patent rights, Baer says, "other firms will have little incentive to invent new features to challenge Intel's dominance."

At the heart of the case are charges that Intel retaliated against Intergraph Corp. and Digital Equipment Corp. when they sued to stop Intel from infringing on their patents. The FTC also says Intel punished Compaq Computer Corp. after

the PC maker sued a rival that had used Compaq patents in motherboards made by Intel. After the suits were filed, Intel stopped giving these customers information they need to develop systems based on Intel chips. Intel says that's true, but spokesmen Chuck Mulloy says "we were protecting our rights under existing intellectual property and antitrust law."

The FTC's argument rests on a 30-year-old theory of "potential competition." It posits that a company's actions can be deemed anticompetitive even if it's not clear a rival has been harmed yet—and even if the prosecutors can't say who a competitor's rival the future could be. In practice, such arguments have generated only mixed results. And, says Washington antitrust attorney Joe Sims, the chances of succeeding on potential competition "are any better now." "Since the three [customers] are not direct competitors, make it harder for the commission to prove that Intel is trying to get a monopoly," he says.

But the FTC argues that the companies targeted by Intel are actual competitors or potential ones. Digital's Alpha chip competes directly against Intel's Pentium line. Intergraph and Compaq compete in computer graphics. Moreover, the two companies are locked in a battle over processor patents held by Intergraph that may have been violated by Intel's Pentiums—making them rival processor technology. (In April, Intergraph won an injunction against Intel forcing the chipmaker to turn over information it had withheld after Intergraph sued Intel for alleged patent violations. On June 8, Intel sued to overturn that ruling.) As for Compaq, the FTC claims it competes with Intel

in motherboards, though Compaq builds them only for its own computers.

Legal experts say the FTC will have a tough time showing that Intel's relationship with those three chilled innovation

in chip technology among other developers. Says Chicago antitrust attorney J. M. Sterling: "The effect has to be more than hypothetical and speculative."

Baer insists he has lots of evidence, so, his think-small strategy could be a big win. If not, the FTC may have to pack up its stacks of Intel files.

By Susan B. Garland in Washington and Andy Reinhardt in San Francisco

Where In The World Should You Invest Now?



One-year stock market
total returns in U.S. dollars
ended 12/31/97*

Overall Morningstar
Rating, 4/30/98

Prudential Europe Growth
Fund (Class A)



among 740 international
equity funds

Prudential World Fund/
Global Series (Class A)



among 740 international
equity funds

Prudential World Fund/
International Stock Series
(Class A)

Morningstar rates funds after
three years of performance.
Inception date of Class A
shares: 9/23/96

For a free prospectus with
more complete information,
including sales charges
and expenses, and other
classes of shares. Please
read it carefully before
you invest or send money.

Prudential Has The Answers

Investing overseas offers many exciting rewards—and special risks. Changing economic and political conditions around the world can cause some markets to soar while others stumble. That's why you'd be wise to tap the investing expertise of Prudential. We can help you navigate the challenges of international investing and find some of today's most promising opportunities.

It's time to discover the rewards of global investing. The U.S. stock market has delivered strong returns in the past few years. But today, many investors are recognizing that a portion of their portfolio should be overseas in order to be positioned for future growth opportunities.

Prudential can help you discover foreign investment opportunities you might not find on your own. As one of the largest money managers in the world, Prudential offers years of international investing expertise, a wide range of overseas stock and bond funds, and seasoned fund managers with timely access to world financial news and data.

Aim for results. Manage risk. When you're venturing overseas, you want to make sure you have the right combination of risk and potential reward. At Prudential, we manage our funds to achieve consistent, long-term risk-adjusted performance. Of course, past performance is no guarantee of results.

Call today for your free prospectus. Find out how Prudential's international and global funds can help you discover a world of investment opportunity.

1-800-THE-ROCK ext. 4610
www.prudential.com



Prudential
Investments

Prices and returns will vary, and you may have a gain or loss when you sell shares. Not all funds in the Prudential Family of Funds were rated as high as appearing in this advertisement. Ratings cited are only for share classes indicated above. Different classes of shares are offered. Although the shares have a common portfolio, their performance and ratings may vary because of differences in loads and fees paid by shareholders investing in different classes. All investments are subject to special risks including currency fluctuation and the impact of social, political and economic change. These risks may result in share price volatility. *Source: Morgan Stanley Capital International (MSCI). The above map illustrates the performance of major world stock indices for the 1-year period ended December 31, 1997. It does not represent the performance of any Prudential mutual fund. MSCI country indices are broad-based indices which include those stocks making up the largest two-thirds of each country's total stock market capitalization. Returns reflect the performance of gross dividends. This map is for illustrative purposes only and is not indicative of the past, present or future performance of any specific fund, nor is it indicative of the countries in which the above funds may invest. Investors cannot invest directly in stock indices.

For periods ended 4/30/98. Ratings are subject to change every month, are historical and do not represent future performance. 10% of the funds in a category receive 5 stars. The next 22.5% receive 4 stars, 35% receive 3 stars. Prudential Europe Growth Fund (Class A) received 5 stars (3 years) among 740 funds. Prudential World Fund/Global Series (Class A) received 3 stars (3 years) and 4 stars (5 years) among 740 funds, respectively. Morningstar proprietary ratings reflect risk-adjusted performance. Morningstar ratings are calculated from the funds' 3-, 5- and 10-year returns (with fee adjustments) in excess of Treasury bill returns, and a risk factor that reflects fund performance below 90-day T-bill returns. Shares of the Funds are offered through Prudential Securities Incorporated, 199 Water Street, New York, NY 10037 and Pruco Securities Corporation, 213 Washington Street, Newark, NJ 07102, both subsidiaries of The Prudential Insurance Company of America.

COMPUTERS

COMPAQ-DIGITAL: LET THE SLIMMING BEGIN

Can the combine be made as cost-efficient as the PC industry?

Eckhard Pfeiffer is on his way to achieving his biggest dream—vaulting Compaq Computer Corp. into the top three of the computer industry. On June 11, Compaq shareholders are expected to bless the \$9 billion merger with Digital Equipment Corp. that will make Compaq No. 2 behind IBM.

On June 12, CEO Pfeiffer will start to lay out his plan for making sure his massive new company doesn't become a bloated, inefficient giant. The basic idea is to sell corporate customers bundles of computers, services, networks, and software—the so-called “enterprise” systems that companies such as Digital traditionally offer—while maintaining the lean overhead of the PC industry. “We are creating a new breed of computer company that takes the PC model of efficiency to the enterprise market,” he says. Pfeiffer won't reveal his cost target, but analysts expect him to set the newly combined Compaq's sales overhead at 17% of revenues—well below Digital's 24% or the 21% at IBM and 28% at Sun Microsystems.

BIG CHOP. Getting there won't be easy—or pretty. First, the merger will chop some 17,000 people from the combined companies' 67,000-member workforce in the next six months, at a projected cost of \$1 billion. Among them will be top Compaq executives, including Senior Vice-Presidents Robert W. Stearns and Alan Lutz. Compaq won't confirm, but sources say Pfeiffer also plans to replace his disk-storage, server, and PC-division execs with Digital people.

On the rise are such Digital execs as John Rando, named senior vice-president for services, William D. Strecker, named senior vice-president for technology and corporate development, and Thomas A. Siekman, named senior vice-president and general counsel. On the retirement list: Digital Chief Executive Robert B. Palmer.

Pfeiffer will also close a handful of factories where the companies overlap. But Wall Street is looking for bigger cuts, since Compaq's costs are already significantly higher than those of Dell Computer Corp.'s.

Some are asking:

How can Compaq

absorb the rela-

tively fat Digi-

tal operation

and push

down costs

in its core

busi-



COMPAQ'S POST-MERGER REGIMEN

- Slash 17,000 from the combined workforce
- Refocus Digital's Unix software around mainframe-class machines
- End Digital's PC production and fold into Compaq
- Expand Digital Service's push into systems integration
- Scale back Compaq's network-equipment business

DATA BUSINESS WEEK

ness, too? Indeed, Compaq already has an earnings problem. For the first quarter, it reported profits fell 96%, to \$1 million, as a result of price cutting and dealer incentives. Its shares are down 22% since February, even as the Standard & Poor's Computer System Index has climbed 10%.

BIG LOSS. The PC price war shows signs of letup, and despite efforts to tighten up inventories, Compaq still has as much as seven weeks of supply for some products. “Compaq today is like a man with its pants down,” says Piper Jaffray Inc. analyst Ashok Kumar. Analysts now expect the company to have a \$70 million operating loss in the third quarter—as revenue slips to a projected \$5.2 billion, from \$5.5 billion in the first quarter.

Pfeiffer dismisses the doubts. “I am extra comfortable we can handle efficiency and strategy,” he says. And in his 35 years in computers, he has proved skin-deep wrong before. This time, the

factor will be how well he can lead Digital's high-margin services business, which includes 22,000 technical-service experts, who can help sell bundles of computers, software, and services. An executive involved in the merger says that Compaq is “counting on services to drive the company's repositioning.”

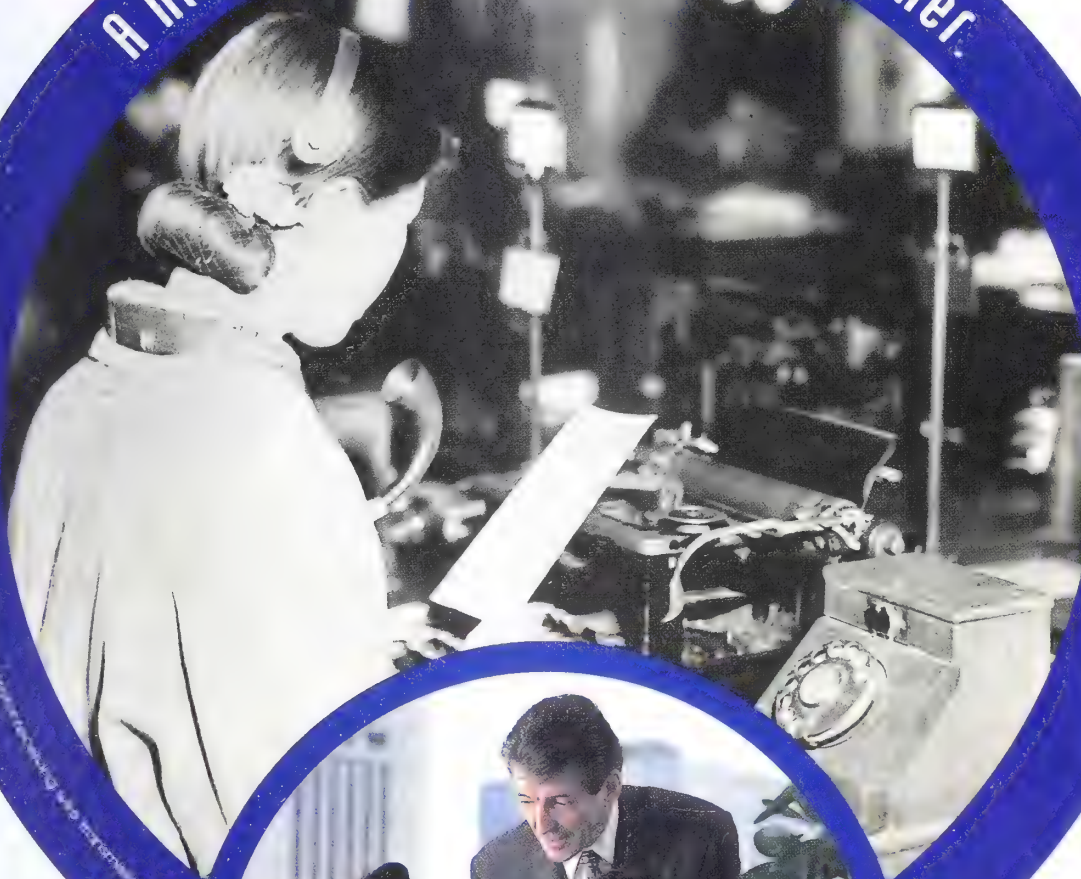
Other promising pieces of Digital's portfolio include storage systems, where the new Compaq will hold the second-largest market share with \$4 billion in revenue; Internet servers, where Digital's Alpha servers are also No. 2; and server companies running the Unix operating system. Critically, these are all areas where margins are as high as 30%.

“These are the strategic areas to watch,” says Compaq Chief Financial Officer Earl L. Mason.

Pfeiffer can count on support from Digital's long-suffering customers. After a decade of downsizing and retrenching at Digital, customers breathed a sigh of relief when Compaq showed up. Joseph Pollizzi, president of the Unix chapter of Digital's user group, says, “All we need is [somebody] to move the products and get the company's message out. Those are all things Compaq is very good at,” he says. Pfeiffer will be to make sure it's better than ever.

By Gary McWilliams in Houston

A history of bringing people together.



NTT's leading telecom provider — NTT — has been connecting people and businesses with cutting-edge services for over 100 years. Today, our *Global Systems Integration Services* provide failsafe solutions and end-to-end corporate connections around the planet. And our *Arcstar Global Communications* services unite major cities across the U.S., Europe and Asia with high-speed infocommunication highways. As we continue to branch into new areas, one principle is certain to endure: we're here to bring people together, now and for generations to come.

Arcstar

Connecting the world through multimedia

For more information on how NTT can connect you, call 1-800-4-NTT-USA, or visit our website: <http://info.ntt.co.jp>



Agility, as defined by C

By Fred Gallag

Taking one of the world's premier sports cars to the next level of performance is not an easy task, or one we take lightly. Corvette® owners are



{ The 82nd running of the Indy 500® marks the fourth time Corvette has been chosen as the Official Pace Car. }

enthusiasts, and when we consider enhancing their driving experience, we do so with the knowledge that we must do *exactly* that. Esoteric engineering

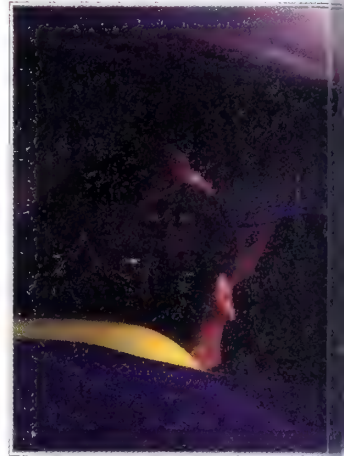
exercises that result in little or no benefit to the driver have no place in the Corvette mission.

What Is Active Handling? Corvette Active

Handling is the logical next step in the evolution of enhanced chassis control systems like ABS brakes and traction control. The Active Handling System activates when there is a significant difference between how the driver *intends* for the car to corner and how the car is *actually* cornering. Working with the ABS, it automatically applies any of the four brakes to help actively control the situation.

The Tough Part, Really, Is the Human Part. The

thing we've learned about Corvette drivers is that



{ The C5 was designed without a roof from the

it's not only the car's performance that but it's being *in control* too. Active Handling to be developed to enhance the driver's without being intrusive. Before we co



T h e N e x t C o r

to its fullest capability.)

e with Active Handling.

neering Group



a d-class sports car that's also a convertible. }

go ns for the software, we had to drive
nd thousands of miles, *anticipating*
lly ry driving situation imaginable, not
f roads, but on wet and snowy roads,

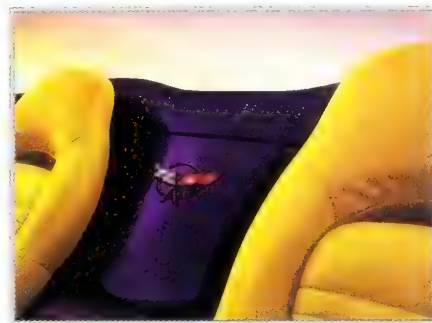


too. This is what we mean by the human part. Computers are great. But you have to collect accurate data and set up the computers properly to deliver the kind of driving experience that a Corvette driver demands.

Agility and Subtlety for the Real World. The Corvette Active Handling System offers amazing agility for the kinds of situations you encounter in real-world driving. Imagine a sudden lane change on a wet road surface to avoid an unexpected hazard — like a huge pothole. Let's say you turn the wheel sharply to the left to avoid it. This input, combined with the low-traction surface, could exceed the limits of traction available to the front wheels, causing "understeer," allowing the car to "plow" straight ahead. In this situation, Corvette Active Handling will work to help correct the car's understeer condition by automatically applying the left rear brake, coaxing the car into a left turn. Of course, an aftereffect of this maneuver could be that the tail of the car may actually start to swing out the other way in a classic "oversteer" condition. The subtlety of Corvette with Active Handling is that it responds to this natural overreaction and brings the rear of the car back in line.

A Note of Caution: The overall effectiveness of the Corvette Active Handling System is directly related to available tire traction and the aggressiveness of a given maneuver. Active Handling is designed to use existing traction to assist the driver — *but it cannot overcome the laws of physics. Please drive responsibly.*

Competitive Driving Mode for the Track. The Corvette Active Handling System will be the first of its type in the world to offer dual-mode operation. You can engage a *competitive driving mode*



{ Design attributes like the nostalgic waterfall make the new C5 immediately recognizable as a Corvette. }

for autocross, gymkhana or other on-track activities. In this mode, Active Handling remains fully functional — while the traction control is disabled, allowing for some wheelspin and oversteer, so more experienced drivers can exploit the dynamic capabilities of Corvette on the track.

This Is a Corvette to Love. You have to drive the 1998 Corvette with Active Handling to appreciate how great it really is. We set out to design the ultimate Vette for enthusiasts and I think we knocked it out of the park. We love driving it. And we think you'll love it too.



Call 1-800-950-2438
or visit www.chevrolet.com

©1998 GM Corp. Buckle up, America! ®

THE INTERNET

IS A STAMPEDE STARTING?

NBC has a Web portal, so others may soon want one, too

Broadcast networks have viewed the Internet mostly as a promotional tool for their brands. But NBC, which is joint owner of the MSNBC cable station/Web site, has a new idea. On June 9 it announced plans to take a stake in Snap!, an Internet "portal," and invest in its parent CNET Inc. In addition to snagging cybersurfers to watch TV shows, NBC will use its shows to drive traffic to recently founded Snap!, a search site that online enthusiasts visit daily. The question is: Does this make sense?

Excite Inc. Executive Vice-President Brett Bullington isn't so sure. "It hasn't been clear that having a presence on TV and the Web correlates to having a dominant role," says Bullington. Still, the NBC deal may only be the first of this type. "Watch this space," says new-media expert Mary G. Meeker at Morgan Stanley Dean Witter & Co. "The big moves have just begun."

Snap!

Indeed, NBC had numerous discussions with bigger portal sites before choosing Snap!, including talks with Excite. Harry M. Motro, chief executive of Infoseek Corp., agrees with NBC that media companies need to partner with portals, and says Infoseek is "pursuing those kinds of relationships." If he finds a suitable deal, he adds, he'll be able to finagle better terms than CNET, since "we have as much traffic in our Japanese subsidiary as all of Snap! does."

NBC did get the alliance for a modest investment. For \$32 million, NBC will get just under 5% of CNET and a 19% stake in Snap! and control of the portal's board. It has options that would allow it to control 60%. For CNET, which spent \$25 million on Snap! but can't afford to continue promoting the service, the deal could help it reach its goal of turning profitable this year. Now the question is whether the network that hawks "Must See TV" can make Snap! a "Must Surf" gateway to the Web.

By Richard Siklos in New York and Linda Himmelstein in San Mateo



COMMENTARY

By Catherine Yang

HOW TO KEEP THE INTERNET BACKBONE IN SHAPE

So close, and yet so far. WorldCom Inc.'s \$37 billion merger with MCI Communications Corp. is within inches of completion. But the European Commission and the U.S. Justice Dept. are withholding approval until the companies can prove that their combined Internet operations won't crush rivals.

Regulators are on the right track. Internet data networks are doubling every four months, and in a few years, they'll carry far more traffic than traditional voice networks. So, trustbusters must make sure early on that no one player can dominate the market, raise prices, and squeeze out rivals. "There's a potential for abuse," says Donald Heath, president of the Internet Society. "Someone with critical mass can dictate prices."

The EC has determined that MCI-WorldCom would control up to 65% of the so-called Internet backbone, the global network of data carriers that local operators use to make their connections. That's a big chunk of the market, and the fear is that a giant could not only hike prices for small Internet-service providers but also charge unreasonable fees for other backbone networks that need to send traffic across WorldCom-MCI's system.

To appease regulators, MCI has offered to sell its routers and wholesale Internet-service customers to Britain's Cable & Wireless PLC. It will also give c&w revenues from retail Net customers and attractive transmission rates on its fiber phone network for five years. This is a good start.

But beyond c&w, the EC and Justice should guarantee a fair shake for other competitors—such as Level 3 Communications Inc., Qwest Communications International Inc., and eventually the Baby Bells. One possibility: Negotiate a consent decree in which MCI-WorldCom would promise to offer fair-market interconnection terms to all rivals that need to hook on. And to avoid government regulation, the industry could police pricing itself through an arbitration system.

LOCAL MOVES. But trustbusters are so far signalling that they aren't out to scuttle the deal—by, for example, demanding the sale of WorldCom's market-leading UUNET Internet service. After all, from a U.S. perspective, MCI-WorldCom together could be pro-competitive: They say they'll take on Baby Bell local monopolies. Moreover, many companies are building data networks that could compete with MCI-WorldCom, including recently announced ventures from Bell Atlantic and Sprint. Here again, maintaining competitive hookup charges will be key. "You don't want interconnection used as a strategic weapon," says Hal R. Varian, dean of computer studies at the University of California at Berkeley.

Still, more competition is coming soon to the Internet backbone. The job of regulators must be to maintain a level playing field until that day arrives.

Yang covers telecommunications issues from Washington.

Netscape

» NOW IN **EVERY HEADLINE**

KNIGHT-RIDDER'S 31 local daily newspapers were facing fierce new competition for readers and ad revenues. Was there a breakthrough way to deliver the news? We worked with Knight-Ridder New Media to help develop an electronic news clipping service, searchable classified ads, local sports and entertainment services—all of which helped them wring additional revenue from their papers. What made it possible? Netscape PublishingXpert and Netscape Enterprise server software. Today, there's no telling what business will break away from the competition with a Netscape solution. Learn more with a free information packet—call 800-945-9361 or visit home.netscape.com/breakaway



NETSCAPE

EDITED BY KELLEY HOLLAND

TOBACCO'S GAINS GO UP IN SMOKE

JUST WHEN THE CIGARETTE industry looked as if it might be retaking control of the debate over national tobacco legislation, a Florida jury delivered a blow that could change the industry's fate. A Jacksonville (Fla.) jury on June 10 ordered Brown & Williamson to pay damages of \$1 million, including the first punitive damage award levied against the industry, to the estate of Roland Maddox, a Jacksonville man who smoked two packs a day until his death in 1997. Analysts say the verdict likely will harden the resolve of Big Tobacco's critics in Congress who are pushing for tough reform legislation. The verdict might revive a bill sponsored

by Senator John McCain (R-Ariz.), the toughest alternative being considered. Cigarette stocks fell nearly 4% immediately after the verdict.

A SUMMER STAMPEDE INTO STOCKS

EVEN BEFORE FED CHAIRMAN Alan Greenspan told Congress on June 10 that the U.S. is enjoying its best economy in 50 years, small investors were piling back into the market. In the first week of June, some \$7.4 billion flowed into U.S. equity mutual funds, vs. \$3.2 billion the week before, says research firm Mutual Fund Trim Tabs. "The minute the market seems to stabilize and move up, people put money in," says Trim Tabs research director Carl Wittnebert. The start of the month usually sees strong flows. If June's pace holds up, the total could be \$50 billion; May's estimated tally is \$13.6 billion, down from April's \$26.6 billion.

BOEING THINS OUT ITS 747 ORDER BOOK

MORE ASIAN CONTAGION: Boeing is cutting 747 production from five a month today to 3.5 by the second quarter of 1999. Asian carriers had accounted for 40% of the current 150 orders. But now, some of the orders have been deferred, says Fred Mitchell, Boeing vice-president of production. Boeing will still ramp up overall production to about 50 planes a month in 1999 compared with 47 today. But the extra deliveries will come from the lower-margin 737 line.

ON THE PC FRONT: WHAT GOOD NEWS?

PLUNGING PRICES FOR HOME PCs seem finally to have stabilized. But now basic demand

HEADLINER: RICHARD KOVACEVICH

BANKING'S NEW ODD COUPLE

Richard Kovacevich has long disdained banking's merger mania. As recently as May 29, the Norwest CEO insisted he was in no hurry to participate in it. "Bigger doesn't make you better," he said.

Times change—and quickly. On June 8, Kovacevich and Wells Fargo CEO Paul Hazen announced a \$34 billion merger to create a bank with assets of \$178 billion. "I'm not against bigness, as long as it's consistent with your strategy," says Kovacevich.

That's where Wall Street is confused. He has long emphasized service-oriented community banking. Wells,

by contrast, is the technobank, intent on maximizing efficiency by minimizing customer contact. "They couldn't be more different in ... philosophy," says Moshe Oren of Sanford Bernstein. Investors worried about the clashing cultures sent Norwest's stock down on news of the deal.

Kovacevich says the differences will make the combination a natural. "We have the best community bank model. They have the best alternative distribution model. Together we're a powerhouse." Well, they're certainly bigger.

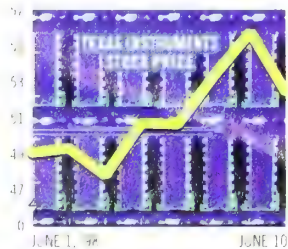
By Andrew Oster



CLOSING BELL

BAD MEMORIES

A case of jitters: Wall Street drove up shares in Texas Instruments 14% in early June to 56 on rumors the company may exit the money-losing memory-chip market. Overcapacity has savaged the business for more than two years, costing TI \$244 million in the first quarter alone to quit a memory-chip venture. But the rise halted June 10 as IBM announced it would start selling a chip that mimics TI's hot-selling devices for wireless phones, knocking shares down 6%, to close at 52%.



SOURCE: BLOOMBERG FINANCIAL MARKETS

may be slackening. PC makers and analysts say demand for home PCs is softer than usual—even for the slow spring quarter—and worry that Microsoft's new Windows 98 software won't fill the gap. Why the slowdown? One explanation: Sub-\$1,000 PCs have sold so well that there aren't many buyers left. "I think the numbers are going to be el sucko for these guys in the retail space for a number of months," says Charles R. Wolf, PC analyst at Credit Suisse First Boston. That would mean already dour projections for second-quarter sales growth may be too rosy.

THE PATRON SAINT OF VIAGRA

ACE GREENBERG SAYS HE HAS been looking for ways to improve the quality of other people's lives. So on June 9, the chairman of Bear, Stearns announced he was donating

\$1 million to provide Viagra to impotent patients who cannot afford Pfizer's new drug. The money will be donated through the Hospital for Special Surgery in New York. "I just read about people having problems getting covered from their insurance companies, and I felt this was something I could help with," says Greenberg. What's next on his charitable list? "Show me anything that will give people a lot of pleasure who cannot afford it, and I'll do it," he says.

ET CETERA...

- Health Care and Entertainment and Manor Care merging in a \$2.4 billion deal.
- Former S&L chief Charles Keating can have a new home on securities-fraud charges.
- Former LILCO CEO William Catacosinos will receive a \$42 million payout.
- Another hot Web site: Ink.com shares doubled on their first day of trading.



the currency.

the market.

the global bank

Euro-Ready.

Managing Your Euro Evolution

Introduction of the European single currency will reduce risk and simplify business transactions. But the transition will be a challenge.

Bank of America is ready. Our integrated global banking system and worldwide presence make us one of the only major banks with a proven, superior payments platform already in place. Which means your payments and liquidity management can run smoothly and effectively.

As a global bank, we deliver the cash management, treasury, and capital raising capabilities your business will require through the transition – and beyond.

That's power in motion. That's Bank of America in motion.



© 1998 BankAmerica Corporation

Bank of America

www.bankamerica.com

power
in motion.™



**We don't expect
you to
alter your vision
to accommodate *an ERP system.***

At DataWorks, we design ERP systems that fit the way you see the world. We've made understanding the real-life business processes of mid-range manufacturing our life's work. And that commitment shows in products that are powerful, yet flexible and easy to use. Without compromise, we help you control everything that's vital to your enterprise — materials, information, money. Microsoft technology ensures low cost of ownership, while guaranteed low implementation fees speed your return on investment. Look to the leader in mid-range ERP solutions. Call DataWorks at 1-800-413-2797.

***data*works**
Information at its best

www.dataworks.com

ED BY OWEN ULLMANN

HAWKS ON THE HILL ARE CIRCLING THE SURPLUS

There has been no shortage of talk out of Washington about how to spend Uncle Sam's ballooning budget surplus. The Prez favors a Social Security rescue, Newt a fat tax cut, and others are angling to pay down the national debt. Now there is a fourth proposal flying in under the radar: Bulk up the Pentagon.

After 14 years of shrinking defense budgets, pressure is mounting on Capitol Hill to restock America's arsenal. And it's not just Republican hawks making noise. Moderate Democrats worry that the post-cold war world is turning into a more perilous place than they imagined.

Among them may be Vice-President Al Gore, a longtime military booster who is one of the few Senate Democrats to support the Persian Gulf war. He's not about to let the GOP paint him as a softie on defense in the 2000 campaign. When the issue is joined over how to divvy up the surplus, "the Vice-President will be very active" of the Pentagon, predicts a White House Administration official.

THE EQUATION. What's behind the rush to boost defense? Friends of the military are making the most of war scares from the Middle East to South Asia. Nuclear tests by India and Pakistan have rekindled interest in a Star Wars defense against renegade nations that can put a nuke on a missile. Though doubts remain whether a satellite-based detection system could thwart attacks, President Clinton and Congress plan in late spring to add \$179 million to the \$4 billion anti-missile defense budget. What's more, repeated deployment of troops to hot spots from the Persian Gulf to Kosovo give plenty of ammo for boosting military funds. "India and China are changing the whole equation," says Kendall Pease, president for communications at General Dynamics Corp. The upshot: Defense spending, which has fallen by one-third since 1985, may finally get some

reinforcements. Next year, the budget caps that restrained Pentagon spending will finally come off. The Administration plans to boost weapons purchases by \$4 billion, to \$49 billion, in fiscal 1999 and raise that budget to \$64 billion by 2003. Hill conservatives, however, want billions more to update aging hardware bought during the Reagan buildup. Says Charles A. Gabriel Jr., defense analyst at Prudential Securities Inc.: Lawmakers "will find a way to sink their teeth into some of that surplus." And military contractors are cheering them on.

While consensus is growing for a spending boost, there still will be plenty of bickering over how to finance the Pentagon's wish list. It includes megaprojects such as the F-22 fighter, Lockheed Martin Corp.'s stealthy, supersonic replacement for the F-15, and the new attack submarine to be built by General Dynamics and Newport News Shipbuilding Inc. Defense Secretary William S. Cohen wants to pay for these projects partly with savings from proposed base closings and other reforms, such as privatizing travel services. If the Pentagon brass "changed their business practices, they could find the resources within the budget to meet all their requirements,"



F-22: High on the Pentagon's wish list

says Luther F. Schriefer of Business Executives for National Security, a military-reform group.

But Congress is balking at Cohen's politically unpopular base-closing plan. And analysts say the other reforms won't offset the cost of new weapons, which could run \$26 billion over budget. When cash was tight, that alone might have been enough to put plans for shiny new hardware on hold. But with billions pouring into the U.S. Treasury and conflicts smoldering around the globe, the Pentagon's pals in Washington have a powerful argument for grabbing a piece of the prosperity dividend.

By Stan Crook

CAPITAL WRAPUP

N RUBIN LEAVES...

With Treasury Secretary Robert E. Rubin expected to depart before the end of Clinton's second term, Administration officials are already pondering possible successors. One top candidate is Fannie Mae Chairman Andrew W. Mellon III, who plans to step at yearend. But the favorite, according to insiders, is Lawrence H. Summers, Rubin's deputy. Summers played a lead role in financial-rescue efforts for Mexico, Russia, and countries in Asia.

CASH-STRAPPED BIZ REPS

► Labor's defeat of California's anti-union initiative had one good outcome for Republicans: Unions spent \$20 million they won't have for the midterm elections. But GOP business allies have their own money woes. Trade groups say they've spent some \$20 million this year on lobbying efforts like trying to scuttle a global climate treaty and a health-care bill of rights. Now they fear that they'll have trouble raising cash to counter labor ads this fall.

A FAVOR FOR FONG?

► Did politics prompt House Republicans to postpone a June hearing on claims that China funneled '96 campaign gifts through Asian businessman Ted Sioeng? The GOP says witnesses were unavailable. The Dems say Matt Fong, California's treasurer, who is running against Democratic Senator Barbara Boxer, doesn't need any heat from the China scandal. In 1995, Sioeng donated \$50,000 to Fong, who later returned it. Fong also helped Sioeng meet Newt Gingrich.

CHINA

TIME FOR PLAIN TALK

Is a real China-U.S. alliance at hand?

Ever since China opened its doors in 1972, it has played a skillful game. With its huge potential market, it could draw billions of dollars of investment from the West strictly on its own terms. And while Japan bankrolled Asia's boom, China handsomely benefited and devalued its currency when it needed to boost exports. Politically, it played the bad boy—supplying arms to unstable regimes in the Middle East, occasionally flexing its military muscle. It was exasperating to deal with China, but as long as Asia boomed and remained stable, Beijing got away with its antics.

Now the freewheeling days are over. China's neighbors are floundering economically, Japan's financial system is crumbling, and India and Pakistan are in a dangerous nuclear arms race on China's doorstep. The world is hoping that Beijing will help bring political and economic stability back to the region. "As China becomes more modernized and integrated with the world, it is recognizing that it has an interest in preserving stability," says David M. Lampton, director of China Studies at Johns Hopkins University.

The shift in Chinese attitudes was crystal clear as the yen crashed to a nine-year low of 141 to the dollar on June 9. China's central bank governor Dai Xianglong told Japan to "take effective measures to stabilize the yen." China has its own reasons to want a halt to the yen carnage. Economic growth is likely to wilt to 6% this year. That's below the official 8% target and under the 7% mark required to prevent a further surge in unemployment, already at 12 million. Dai's jab at Japan said exactly what the rest of Asia—and the U.S.—feels.

It was a great curtain-raiser to President Bill Clinton's China trip, which starts on June 25. Indeed, the dark events in Asia create an opportunity to



THE CLINTON TRIP

forge a real relationship between China and the U.S. Put simply, the two need each other more than ever: America needs China to behave responsibly on the world stage. And China needs U.S. money, knowhow, and goodwill to ease it through the Asian crisis and its own painful reforms.

U.S. negotiators have a long wish list. They want Beijing to stop selling weapons technology to pariah states. They want China to prod North Korea toward reunification with South Korea. And they would like more contacts between the Pentagon and the People's Liberation Army, which is leery of the U.S. They may even get agreement at the summit to hold the first joint naval exercises since World War II. "It's important to break down this wall of suspicion," says Stanley O. Roth, Assistant Secretary of State for East Asian & Pacific Affairs.

STILL CAGEY. Hitting those goals, of course, will be tricky. Clinton has deep political problems at home, ranging from campaign-finance scandals to congressional hostility, especially from the right, to China. China, meanwhile, is still cagey about getting involved in global matters that don't have a direct impact on its own interests. And it just doesn't accept that the U.S. has any security role in Asia.

Still, events in Asia could put U.S.-China relations on a much higher plane. Administrations since the Nixon era have recognized the strategic importance of normal ties with China. To win popular support for "engagement," they have stressed the potential profits from China's huge market. But that argument has

been worn thin by China's expected billion trade surplus and complaints frustrated U.S. companies that have to make money on the mainland. It lambasted America's China policies triumph of greed over human rights. Now the White House can shoot that it is promoting stability over

Meanwhile, the Asian crises have shown Beijing's leaders how much they can win by acting responsibly. Even before governor Dai's ouster, China resisted depreciating the renminbi



CHINA-U.S.: THE LONG MARCH

1972 Stunning the world, staunch anticommunist Richard Nixon travels to China, ending two decades of confrontation and isolation.

1978 Jimmy Carter establishes formal diplomatic ties with the mainland and severs official relations with Taiwan.

1979 Relations improve further when Deng Xiaoping makes the first state visit to the U.S. by a high-level Chinese Communist leader. He captures the public's fancy by donning a cowboy hat.

1989 The Chinese military massacres hundreds of political demonstrators in Tiananmen Square. American outrage chills relations.

1995 China feels betrayed when Taiwan's pro-independence President Lee Teng-hui is allowed to visit the U.S. after Beijing had been told he would not.

1996 In retaliation, China conducts missile tests near Taiwan.

1997 With relations back on track, Jiang Zemin visits the U.S.

1998 Bill Clinton reciprocates with a planned visit to Beijing.

wan." Ideally, Beijing would like to trade promises to play a responsible world role for U.S. support on Taiwan. "We're like meat on the chopping board," frets Cheng Tuan-yang, associate research fellow at National Chengchi University in Taipei. "One day, Taiwan will be sacrificed."

ANGRY GROWLS. That's unlikely any time soon. The Administration insists it won't budge. Indeed, it just announced plans to sell improved avionics for Taiwan's fleet of F-16s, despite angry growls from Beijing. U.S. officials promise they'll resist Chinese pressure to restate in stronger terms the U.S. position that it won't support Taiwan independence or entry into the U.N.

It's also going to take a long time to agree on economics. Though China says it wants to join the World Trade Organization, economic nationalism remains strong (page 56). The U.S. still needs to convince China that it needs to integrate with the global economy and open itself further to foreign investment and its neighbors' exports. The U.S. is pushing business issues such as the protection of U.S. copyright and intellectual property. "The President should stay the course on the market-opening agenda," says William J. Hudson Jr., CEO of Harrisburg (Pa.)-based AMP Inc., a maker of electronic cable connectors with three plants in China.

All the same, there are some encouraging economic trends in China. Rather than massively dumping cheap exports around the globe, China is looking to its own backyard to pump up growth. Prime Minister Zhu Rongji is opting to stimulate domestic demand by investing \$250 billion in infrastructure this year. And he is pushing controversial reforms to restructure ailing state enterprises—or shutter them for good. Rising unemployment suggests the program is working. If China's domestic companies emerge stronger, it will be easier for Beijing to meet U.S. requirements for WTO entry.

Economic tensions could rise if China shuts out foreign, and particularly U.S., business from the full benefits of economic reform. And China's moves to stimulate its own economy have yet to take effect. As a result, increased unemployment could test the skills—and the will—of Beijing's reformers. "There's a sense among U.S. policymakers that if we get it wrong now, the future looks grim," says University of Michigan business professor Kenneth Lieberthal.

As always, there is plenty that could go wrong in U.S.-China relations. The summit, however, gives both sides the opportunity to get it right.

By Richard S. Dunham in Washington and Joyce Barnathan in Hong Kong, with Stan Crock in Washington and Dexter Roberts in Beijing

g a torrent of beggar-thy-neighbor evaluations. China is cooperating with the U.S. to limit the damage from tests by India and Pakistan and participating in U.S.-led talks to ease tensions in the Korean peninsula. "The U.S. needs to recognize that China has become an active player in the current economic crisis and a responsible power," says Ge, assistant president at Beijing's Foreign Affairs College.

to reinforce it. It can give China much of what it craves: markets, investment capital, respect as an emerging superpower.

China has its own agenda, of course, with Taiwan at the top. It wants to edge Washington closer to its own view on reunification—especially as Taiwan's pro-independence Democratic Progressive Party gains ground at every election. As China's leaders see it, says David Zweig, a China expert at the Hong Kong University of Science & Technology, "[the summit] is a wonderful time to squeeze Tai-

'A BIG BLACK HOLE' FOR FOREIGN INVESTORS

Westerners thought bureaucratic reform would help. It hasn't

If ever there was a moment when China should roll out the red carpet for foreign investors, it's now. Exports are off, and unemployment is rising rapidly. State enterprises are bleeding red ink, and banks are technically bankrupt. Overseas Chinese in Hong Kong, Taiwan, and Southeast Asia are too hard-pressed by the crisis to boost investment in China. So China should do what it takes to keep the money coming in from the West.



THE CLINTON TRIP

quarter of the bureaucracy and separate the commercial functions of ministries from their regulatory side, foreign investors hoped the streamlined ministries would be easier to deal with. Instead, "nobody knows what's happening during this restructuring—it's a big black hole," says one Beijing-based Western diplomat. The reorganization could also give a big edge to Chinese companies. Just look at the decision by China's State Power Corp. to

es and fiber-optic cables whenever possible. That's hardly surprising, given who's in charge of the newly formed ministry: Wu Jichuan, the same reform bureaucrat who ran the Posts & Telecommunications Ministry.

It gets worse. Beijing has handed out licenses to sell insurance to seven foreign companies—among them American International Group Inc. and Aetna Inc.—and they are confined to Shanghai and Guangzhou. Other firms are competing furiously to land licenses. Insurer Chubb Corp. has twice former President George Bush to Beijing to lobby its cause and has set up an insurance training school for officials in Shanghai. Chubb still has no license.

GREEN LIGHTS. Another tantalizing prospect is the mortgage business, but that China is privatizing its housing. But there are no signs that Beijing

loosen its tight restrictions on foreign banks dealing in local currency. The Canada Mortgage & Housing Corp. is eyeing the market, but the company has made little headway with the Construction Ministry. Timber companies would like to sell, too, but Beijing policymakers are skeptical about wood housing. "Housing reform could be a great engine for growth," says Kent Wheeler, general manager of Weyerhaeuser China Ltd. "But Beijing has to do more than just require the Chinese to buy dilapidated housing."

Equally frustrating is the reluctance of Chinese firms to pay for soft services like consulting. Even though China aims to introduce modern accounting practices to banks, Price Waterhouse has limited luck rustling up Chinese customers. "You can't survive in a country like China just off a multinational client base," says Thomas Macy, chairman of financial services for Price Waterhouse in China.

Other big projects are getting the green light because Beijing cannot do without them. Recent approvals allowing Eastman Kodak Co. to take over ailing local

factories and giving Shell Oil Co. the go-ahead for a massive \$4.3 billion petrochemical project show Beijing's flexibility. What's maddening is how arbitrary that flexibility can be. Western investors were hoping reform would level the playing field. But China remains an unpredictable game.

By Dexter Roberts in Beijing



But that's hardly happening. China's dramatic restructuring of its bureaucracy has U.S. and European investors confused about who's in charge and fearful of new protectionism. Despite high-level statements to the contrary, Beijing seems to be pushing a "buy domestic" agenda in some industries, in part to keep local companies afloat. In banking, insurance, and phone service, China seems intent on blocking access to foreigners for years to come. In other cases, Beijing is stingily doling out precious licenses. If these snags frustrate too many companies, foreign investment could dry up dramatically.

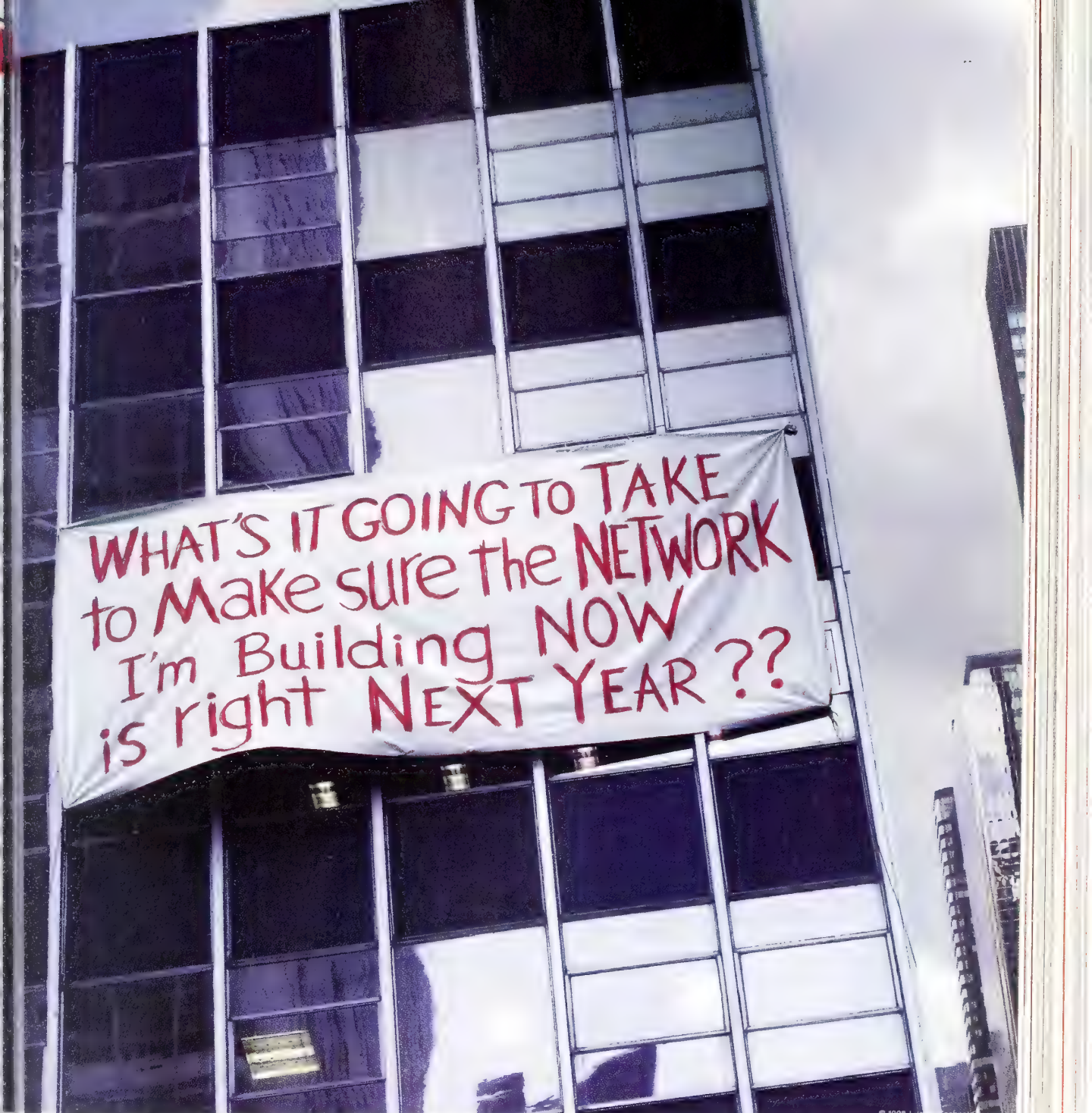
When Beijing announced plans earlier this year to lay off as much as one-

end purchases of foreign power-generation equipment for projects under 600 megawatts. The Chinese can now make their own big generators, so why buy foreign? "A lot of people are very worried about this," says J. F. Sperry, president of Westinghouse Electric (China).

In telecom equipment and service, a similar story is unfolding. According to industry sources, leaked internal directives from the Information Industry Ministry call for local governments to purchase Chinese-made telecom switch-

SHANGHAI BUILDING

The Construction Ministry is seeking to attract foreign investment in China.



WHAT'S IT GOING TO TAKE
to Make sure the NETWORK
I'm Building NOW
is right NEXT YEAR ??

HOW-HOW What's it going to take to get the bandwidth you need (where & when & as fast as you need) to handle wireless communications as easily as wired? To get data as reliable as voice? (?????) It's going to take people. Technology. Experience. And the ability to deliver. We've built, and continue to build, the most powerful networks on the planet. We've got the largest service force in the industry (already servicing more networks than anyone on the planet). And we've got the brains of Bell Labs behind us. This is the kind of arsenal it's going to take to make sure the network you're building now is strong enough to be your network down the road. **We make the things that make communications work.**

Lucent Technologies
Bell Labs Innovations

600 Mountain Avenue
Murray Hill, NJ 07974-0636
<http://www.lucent.com>
1-888-4-Lucent





CHINA

BRINGING IT ALL BACK HOME

How China's returning students are a force for reform

Edward Tian said good-bye to Lubbock, Tex., his pickup truck, horseback riding, and seven years of studying broom snakeweed to return to Beijing in 1995. He took home a Texas Tech University doctorate in range management and a small Internet software company that he co-founded in Dallas. Now the company, Asiainfo, has \$50 million in annual sales and 400 employees and is building much of China's Internet backbone. "I wanted to do something to change people's lives in the next five years, not the next 200 years," says Tian, now 35.

Tens of thousands of Chinese who studied in the U.S. have the same idea. Mostly in their 30s and 40s, they are the new dynamos in China's fast-reforming economy. Many, like Tian, are starting entrepreneurial companies. Some are running economics departments at major Chinese schools. Others are advising banks, stock markets, and government ministries how to adapt to the global economy.

The returnees come back with much more than salable skills. They have a grasp of how the outside world works that stay-at-home Chinese don't. Massachusetts Institute of Technology doctoral physicist Charles Zhang, 33, for



THE CLINTON TRIP

example, is trying to steer Beijing away from the heavy-handed state planning used by South Korea and Japan. "The entrepreneurial, market-driven approach is what makes good technology," he says.

Furthermore, Zhang and people like him open new private channels between the U.S. and China. His company, Internet Technologies China Inc., is a gateway into China for U.S. and other foreign companies. Microsoft, Hewlett-Packard, Motorola, and Ericsson, for instance, all advertise on ITC's Web site, one of the most popular in China with 280,000 hits per day.

Even more important, outfits such as Zhang's are a promising new way of piping foreign investment into China. Traditionally, such inflows have been filtered through clumsy and one-sided joint ventures in which foreigners have few rights. ITC, however, was set up with \$225,000 in seed money from MIT

The returnees' biggest impact may be in opening China to a flow of new ideas

IN NEW YORK

Chinese students learn highly salable skills at schools like City College

professor Nicholas founding the MIT Laboratory of Wireless Zhang million ment Corp. and

companies in March.

China needs more than a neural drive, however. Rebuilding the superstructure of a modern economy is essential. Returnee economist Wang Boming, 42, a former New York Stock Exchange analyst, tests in the restoration. For his Wall Street salary, he just to set up China's new stock exchange in 1988. These days, he is "trying to educate people to manage their wealth."

FACULTY FAVORITES. As a result, Western-educated returnees start to move into senior jobs. Zhang Xiang, 57, a PhD in economics from New York University, became a professor at the Foreign Trade University Cooperation Ministry this year. He be able to avoid Sino-U.S. misunderstandings. Untraveled government officials have, for example, accused conspiracies behind antidumping complaints from U.S. companies.

The returnees' biggest impact may be in opening up China to new ideas. U.S.-minted doctoral students are remaking China's universities as Marx makes way for economics. Leading the way is University's prestigious Center for Economic Research. Its influence extends far beyond campus. Faculty, all Western-educated, are favorite invitees to panels on economic policy. "We try to provide a dependent view to China," says Deputy Director Ha University of California at

Until recently, talking about the party line was a coup. It is still risky to question the Communist Party's right to rule. Big salaries still keep nearly 50,000 Chinese students from returning.

Those from the 1980s and 1990s could have a pact on China's future. Their predecessors are getting started, but they need help they can get.

By Dexter Robert

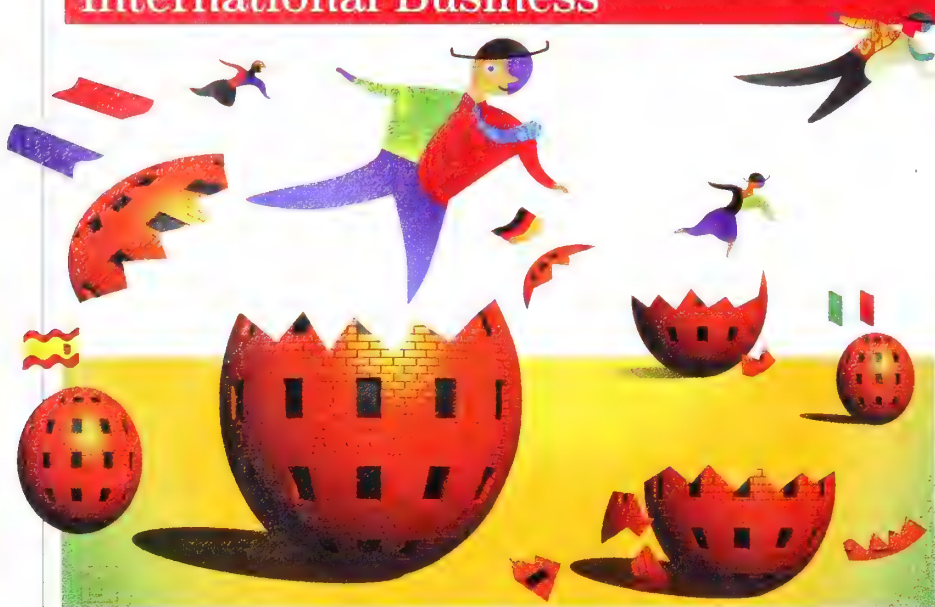
YOU MEAN
CAN GO *global*
AND THEY'LL
SWEAT THE *details?*

al Delivery Services™ can help you
own on paperwork, speed packages
ugh customs and give you the
arces to reach customers in every
try. Think of us as your partner to
ompete in the global marketplace.
us at <http://www.uspsglobal.com>
ll us at:

00-THE-USPS x2061



UNITED STATES



CORPORATE FINANCE

THE EURO'S WARM-UP ACT: IPOs

Stock issues become the hottest way to finance expansions

Cologne-based Interseroh has a dream: to become a kingpin of European trash. Germany's biggest paper and metal recycler, with some \$300 million in annual sales, just bought out a French rival. Now, it's raising \$70 million in its first public stock issue to finance other acquisitions across the Continent. "With the single currency coming, we see opportunities," declares Andreas Schmidt, a member of Interseroh's board.

It's boom time for new share issues in Europe, and trash recyclers aren't the only ones ripe to do deals. Companies big and small need cash to finance the cross-border expansion that will give them a more global reach and to gain an edge when Europe adopts its single currency. And since Europe's stock markets today are the hottest in the world, unprecedented numbers of companies are looking to them for capital rather than taking out old-fashioned bank loans.

New issues have surged in recent

weeks (table), and massive deals are scheduled for the summer and fall. This all represents a revolution in European corporate finance. Intense interest in stocks by European investors worried about funding their retirements is fueling the equity markets, which offer an attractive alternative to bank capital. And increasingly, Continental managers are confident that they can deliver the returns stockholders demand. "We see this as an accelerating trend," says Dante Roscini, a London-based managing director at Goldman Sachs International.

Corporate restructuring is driving many of the biggest deals. So far this year, Capital Data Ltd., a London database, figures 53% of the \$31 billion worth of new share issues have been corporate, as opposed to privatizations. As companies restructure, spin-offs are proliferating. For instance, French telecom-equipment giant Alcatel is focusing on new, high-margin businesses—most recently through its \$4.4 billion bid for

Texas-based DSC Communications Corp. To raise cash and unload a noncore division, Alcatel plans on June 20 to flat big chunk of its stake in GEC Alsthom, a heavy engineering joint venture, in a move expected to raise \$1.9 billion.

Meanwhile, family-run companies in Germany, France, and Italy are finding that going public allows them to raise needed capital without coming up with the thumb of a big bank or corporate parent. Listings on Germany's Neuer Markt have doubled since Jan. 1. In Italy, \$95 million lawn- and garden-equipment maker Emak is planning to float 29% of shares on the Milan Borsa in mid-June. "We prefer not to sell a chunk of company to a single partner who might exert influence on a managerial level," says Emak CEO Ariello Bartoli.

TOO EARLY? In many cases, U.S. leveraged buyout firms and other financial specialists—deeply mistrustful of the Continent until recently—play a key role in the financing wave. On May 1, Germany's Winkler & Dünneberg, a leading producer of machines to make envelopes and hygiene products, raised \$242 million as part of a buyout by a London LBO giant Doughty Hanson. In Spain, Santander, Royal Bank of Scotland, and London buyout firm Charterhouse were among the shareholders who helped engineer a recent \$299 million share issue by Spanish supermarket chain Superdiplo.

Some new issues have performed spectacularly. Shares of EM.TV & Entertainment, a Munich entertainment company that lures new investors with an elaborate Web site, are up 21% since the company went public in October, 1997. Such astronomical rises have some experts worried that the market may be getting ahead of itself. Ionica Group PLC, a British electronic company that has had trouble financing its wireless phone network, has seen its shares drop 90% from their offering price last July. But on the Continent, given the speed at which companies are building, the best bet is that the equity craze is still in its infancy.

By Thane Peterson in Frankfurt with Kerry Capell in London and Patricia Larner in Rome

IPO FEVER: A SAMPLING

ENDESA (Spain)

The government's \$8.6 billion sell-off of 33% of the giant utility on June 9 was heavily oversubscribed

COMPUTACENTER (Britain)

Computer-services outfit will use the \$542 million it raised on May 21 to expand on the Continent

JENOPTIK (Germany)

State-controlled technology company is going public on June 16, issuing 22.7 million shares for up to \$430 million

RHODIA (France)

Rhône-Poulenc spun off 3% of its specialty chemical unit for \$1 billion on June 8

DATA: MORGAN STANLEY DEAN WITTER & CO.

Look what happened when Lexmark got a clearer picture of their business.

Recently, Lexmark International, a leading provider of printing solutions, made a decision that made everyone a lot happier—employees, suppliers and, most important, customers. They decided to integrate every stage of their supply chain. The goal? To assure customers consistent, on-time product delivery.

The solution? Customer focused processes and enterprise software from J.D. Edwards. Says Paul J. Curlander, President and Chief Executive

Officer, "Keeping promises and delivering the best solutions is what Lexmark is about. J.D. Edwards is about the same thing. Every contact we had with them—from sales to implementation to software support—was with people who were committed to making the Lexmark story a success."

And that it is. The J.D. Edwards solution is key to helping Lexmark make major improvements in customer responsiveness and paving the way

for long-term customer relationships.

And things keep looking better for Lexmark and its customers. Customer deliveries have improved three fold while cycle times have been reduced by over 70%. As Dr. Curlander says, "Because J.D. Edwards is a company that keeps its promises to customers, we're better able to keep ours."

That's how enterprise software ought to be. It can be for you, too. To find out more, call 1-800-727-5333 or visit www.jdedwards.com/customer.

JDEdwards®
Enterprise Software

Dr. Paul J. Curlander
President and Chief Executive Officer
Lexmark International



MEXICO

A TORPEDO THAT COULD CRIPPLE THE ECONOMY

The growing banking scandal is stifling lending

For many Mexicans, it was an outrage: After two years as a fugitive in Spain, Mexican banker Angel "The Divine" Rodríguez was finally arrested and extradited to Mexico. But after a June 5 court hearing in Mexico City on charges of bank fraud, he was allowed to drive home to his mansion, in his luxury sedan, to await trial. "When we see The Divine free to drive around the streets, we know something is seriously wrong with our justice system," complains opposition Congressman Santiago Creel of the center-right National Action Party. "It makes us sick."

Resentment over Rodríguez is just one sign of a potentially explosive showdown that is brewing over Mexico's four-year-old banking crisis—and the government's \$65 billion bailout of banks in the wake of the 1994 peso collapse. Taxpayers are angry at the secrecy of the costly rescue deals, and at President Ernesto Zedillo Ponce de León's proposal to convert zero-interest loans initially used to bolster bank capital to public debt. Essentially that would mean formally shifting the bailout to taxpayers' shoulders. Meanwhile, Barzón, a militant debtors' organization, which has a powerful lobby in Mexico's newly assertive Congress, is fuming that bankers have been coddled at the expense of small debtors.

"POLITICAL TRIALS." Congressional opponents of Zedillo are demanding a probe of the bailouts and punishment of bankers involved in illegal lending as the price for approving his financial reform plan. No fraudulent loans will be paid out of bailout funds, opposition lawmakers declare. Congress is also hiring an international auditor to investigate the rescue deals and planning hearings, called "political trials," on the conduct of officials such as Eduardo Fernández, president of the National Banking & Securities Commission (CNBV), and Central Bank Governor Guillermo Ortiz Martínez.

At stake is the health of the Mexican

economy, which has been growing at a 4.5% clip so far this year after a 7% upsurge in 1997. That pace can't continue, warns economist Walter Molano at SEC Warburg Dillon Read, unless banks step up their still-limited lending. If the reform package is delayed, banks say they'll continue to face a liquidity crunch



PROTEST: Small debtors are furious

HEADING FOR A SHOWDOWN

THE CRASH The 1994 peso collapse and the ensuing recession trigger widespread loan defaults, jeopardizing 18 banks.

THE RESCUE An official agency buys bad loans from banks, paying them with \$65 billion worth of special bonds.

THE FACE-OFF Opposition-led Congress balks at bailout-refinancing plan. It will audit rescues and probe roles of officials in them.

THE RISKS By deterring lending, cloud over banks may slow economy. Face-off may raise financial tensions as 2000 election nears.

DATA BUSINESS WEEK

and won't be able to boost lending.

Politically, the confrontation also casts a shadow over the last years of Zedillo's presidency. It could dim his hopes of a smooth transition when his term ends in 2000. He appointed Ortiz, a former Finance Minister and close adviser, to an

eight-year term as Central Bank Governor in December to provide continuity in exchange-rate policy and bank supervision into the next administration, regardless of the election outcome.

But if Congress finds that Ortiz acted improperly by contracting bail debt without Congress' permission, he could be forced from their posts or barred from public service for 20 years. Central Bank lawyers are already preparing for a possible congressional probe, Ortiz says, a well-informed source. "We the opposition may think that by exploiting this issue, they'll score big gains

in the next elections," warns economist Guillermo Barnés García, a congressman for the ruling Institutional Revolutionary Party, "they should realize it could be very costly for the economy."

Some legislators are pushing for extreme measures, such as a lifting of bank secrecy to expose crooked deals and bring bankers to heel. That would be illegal, argues Finance Minister spokesman Marco Provencio. But he says officials are willing to provide more information. The government now realizes that it might have avoided the current face-off by being more upfront with Congress from the start. "Nobody is being presented with such a huge bill to pay without a thorough discussion first," concedes Provencio.

It's too late for that. But a thorough nonpartisan investigation of the banking crisis and bailout could be another step in Mexico's journey toward a more open and accountable democracy.

By Geri Smith in Mexico City

The CEO speaks; the CIO cringes.

"Let's hold the next global meeting via our Intranet."

That means voice, data, even video.

(On 2,300 desktops in 90 days.)

Can you do the impossible again?

Can your network?



More connected.

3Com builds networks powerful enough to handle even the most daunting request. Intelligent networks that close the gap between time and distance. So that bandwidth-demanding applications — such as remote training and video-to-the-desktop — run smoothly. All from the company that's connected more businesses in more ways than any other. Visit www.3com.com/moreconnected for the latest news about converged networks.

ARGENTINA

'I BET THE RANCH, AND I WON—ABSOLUTELY'

Juan Navarro is the buyout king of Argentina. Now, he aims to conquer the whole region

From his elegant, modern offices in one of Buenos Aires' few skyscrapers, Juan Navarro enjoys a vista of the ornate monuments and balconied facades of the city below. He keeps an even sharper eye on Argentina's fast-growing economy, spotting companies that need capital to survive the toughening competition. On trips to the U.S., the Uruguayan-born financier persuades prominent investors, from Bankers Trust Co. to Princeton University's trustees, that there are big profits to be reaped from buying into cash-starved family businesses in Argentina, turning them around, and selling them for hefty gains.

Navarro is "extraordinarily effective at selling his vision," says David L. Anderson, managing director of investment banking at CS First Boston. Indeed, Navarro's persuasive manner has helped him build Argentina's first private equity-buyout firm, Exxel

Group, into one of the country's largest privately-owned holdings, controlling 38 companies with combined annual sales of \$3 billion and profits of \$500 million.

RUTHLESS. In building this empire, Navarro has won both respect and enmity. He is a hard-nosed dealmaker in a country where business is based on friendship more than results. His restructuring of companies often costs about one-third of workers their jobs. "A lot of people hate his guts, and a lot really respect him," says Steven Darch, CEO of ING Barings Argentina and a former partner in Exxel. While admirers compare Navarro to U.S. buyout pioneer Henry R. Kravis, detractors liken him to Gordon Gekko, the ruthless financier in Oliver Stone's film *Wall Street*. Navarro's description of his way of doing business is "anticipatory, flexible, and excellence-driven."

As investors grow increasingly wary of emerging markets, some Latin companies have been cancelling stock

sales. But so far, the 45-year-old Navarro, who founded Exxel in 1991, has escaped the backlash. Capital Partners Fund V, an \$850 million pool that closed in mid-May, was oversubscribed by \$100 million and includes such biggies as General Motors Investment Corp. and the Ford Foundation. Navarro says Fund V will look beyond Argentina for opportunities throughout Mercosur, the trade bloc that also comprises Brazil, Paraguay,

and Uruguay. Many of its participants are repeat investors from Exxel's earlier limited partnerships (table, page 40), which are designed to operate for 7 years before going public or selling to strategic investors. So far, Navarro

raised \$1.4 billion in equity capital, mostly from the U.S., and made investments totaling \$2.2 billion, including investments in fields from supermarkets to health care.

Navarro's success has also triggered a spate of investment in Argentina by other private equity funds. Dallas' Hicks Muse, Tate & Furst Inc., a Houston entrepreneur, David Bonderman's Newbridge Latin America are among

NAVARRO'S WAY

His restructuring can cost one-third of workers their jobs





Two for the road.

Introducing the Intel® Pentium® II processor for mobile PCs.



pentium® II

The Pentium® II processor is now available in mobile PCs. Which means you can have the best of both worlds: the performance of a desktop PC and the ability to take it anywhere. So go test drive a new mobile PC with an Intel® Pentium II processor and pull into the fast lane. For more information, visit our Web site. www.intel.com/mobile/PentiumII

intel

The Computer Inside.™

Navarro has raised \$1.4 billion in equity capital, mostly from the U.S., and has made investments in fields from supermarkets to health care

groups that have been buying into family-owned conglomerates, small businesses, and privatizations.

By cutting costs and introducing professional management and new technology, buyout specialists such as Exxel have become major agents of change in Argentina. Exxel takes a 20% share of the profits from the limited partnerships and collects a 2% fee for finding the deals, negotiating the buyouts, and running the businesses. Navarro owns 100% of Exxel's common stock but shares revenues equally with six other senior managers. "We're paid for performance," Navarro says. He puts his own money at risk by investing in each fund.

Navarro launched his buyout business with a gamble. As a rising young Citibank executive in the 1980s, he turned down an offer to head Citi's corporate banking in Argentina. Instead, he founded Citicorp Capital Investors Ltd.—the predecessor of today's Citicorp Equity Investment, a private fund 40% owned by Citicorp—using Citibank's \$1 billion in nonperforming Argentine loans to swap for stakes in local companies.

BREAKING AWAY. In 1991, Navarro and a handful of Citibank colleagues decided to go it alone. They modeled Exxel on U.S. buyout firms such as Blackstone Group and Baine Capital. "I put 100% of my reputation and personal assets on an industry that was nonexistent in Latin America and into an economy that was just turning around after showing a pathetic performance for decades," says Navarro. "I bet the ranch, and I won—absolutely."

Exxel's first investment, a group of five cleaning-products companies that Navarro bought in 1993, racked up a fat capital gain. Navarro paid \$22.5 million in cash and assumed debt, merged the companies, and built up the business—then sold it to Clorox Co. of the U.S. for \$95 million two years later. This year, Navarro expects to reap big gains from public share offerings of MasterCard licensee Argencard and a recently consolidated group of electricity generators, while he is looking for a strategic partner for

retail chain Supermercados Norte.

Argencard shows Navarro's knack for making a risky venture pay off. When Exxel took a 56% stake in the firm in 1995, the country's largest banks didn't issue the card, and leading retailers didn't accept it. Now, they do. Navarro hired a manager from Citibank's Argentine consumer banking to run the business and shrank the payroll from 1,100 people to 650. Net income grew from \$26 million in 1995 to \$45 million last year.

Navarro is not without controversy, having attracted the attention of a congressional investigating commission. That's because of Exxel's \$605 million purchase in December of a group of com-

he bought the companies from their owners, not Yabrán, "so we don't need to apologize for who presumably ran these businesses."

"GUTSY ENOUGH." Navarro's investment is undisturbed by sensational headlines. He seems satisfied. "He bought a good business, and we are comfortable with it," says Ettore Biagioni, general manager of Bankers Trust. Adds Anthony V. Fernández, managing director of international banking at CIBC Oppenheimer Corp., a longtime investor in Navarro's buyouts: "He was probably the only person gutsy enough" to buy such politically touchy property. In Navarro's view, a storm of bad press had created "a historical opportunity to buy."

Navarro now wants to expand his ventures throughout Mercosur, including Supermercados Norte and Furlong, a transport and house company. Exxel's 1996 acquisition of Norte for \$440 million was Argentina's largest-ever purchase of a private

EXXEL'S BUYOUT DEALS

COMPANY ACQUIRED/YEAR	BUSINESS	MAIN INVESTORS	PRICE (\$ MILLION)
ARGENCARD/1995	MasterCard franchisee	CIBC Oppenheimer, Chanel family, Bankers Trust	\$137
SUPERMERCADOS NORTE/1996	Supermarkets	GE Pension Trust, Travelers Insurance, Brown University	440
OCA/1997	Private postal services	Aetna, Ford Foundation, Caisse du Depot & Placement	450
INVERSIONES Y SERVICIOS, VILLALONGA FURLONG, INTERBAIRES/1997	Trucking, duty-free shops, customs warehouses	Liberty Mutual, Massachusetts Institute of Technology, Kuwait Investment Office, Columbia University	155
MUSIMUNDO/1998	Music & electronics chain	Wellcome Trust, Turner Trust, Princeton University	230

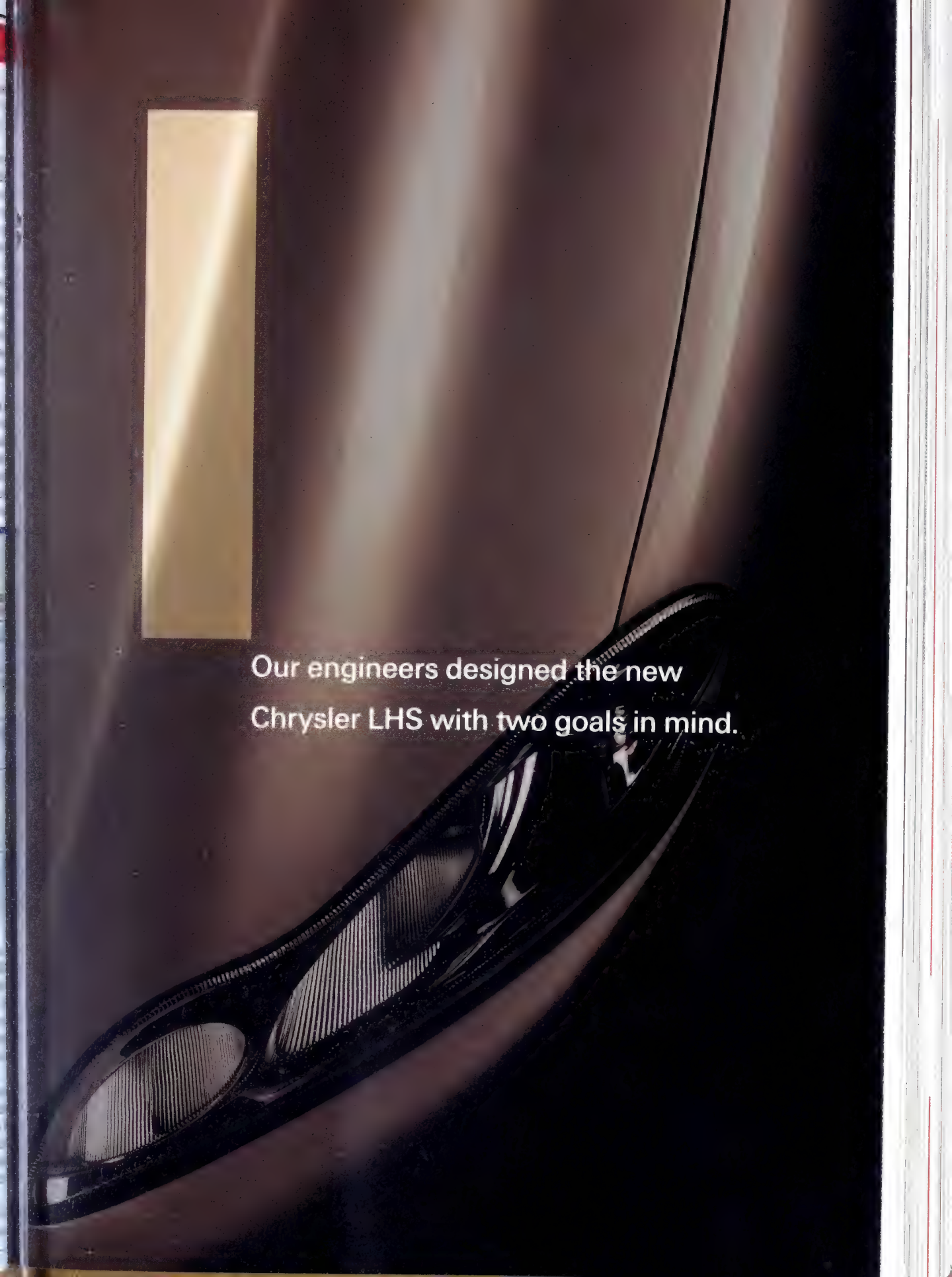
DATA: EXXEL GROUP

panies involved in private postal services, trucking, duty-free shops, and airport customs warehouses. They were widely believed to have ownership links to Alfredo Yabrán, an accused organized-crime boss. On May 20, he committed suicide after a judge ordered his arrest as the prime suspect in the murder of an Argentine magazine photographer last year. "There is no doubt Yabrán owned" the firms, says Juan Pablo Cafiero, a member of Congress who represents the opposition Frepaso Party and belongs to the Chamber of Deputies' Anti-Mafia Commission, which is investigating the buyouts. Exxel is retaining the former head of one of the firms, a long-time associate of Yabrán, as a consultant. Navarro says

pany and Latin America's first U.S.-leveraged buyout. To expand its reach, Exxel recently paid \$55 million for four additional supermarket branches and it is investing \$350 million to buy Norte branches by 2000. "If the economy is growing and cross-border opportunities appear, you are going to make a lot of money," Navarro says.

Still, there are skeptics. Norte, for example, faces a scramble for market share against heavyweights such as Wal-Mart Stores Inc. and France's Carrefour. If Navarro succeeds in his regional expansion, it won't be the first time he has beaten the odds.

By Andrea Mandel-Carroll
in Buenos Aires

A dramatic, low-key photograph of a car's front end. The focus is on the headlight and the upper grille area, which are illuminated by a bright, rectangular light source positioned above them. The rest of the car and the background are in deep shadow, creating a sense of mystery and highlighting the car's design details.

Our engineers designed the new
Chrysler LHS with two goals in mind.

On the
it scre

On the other hand,
it's exceptionally q

\$28,995 fully equipped*

*Base MSRP includes destination. Tax and options extra.

One of the most striking features of the 1999 Chrysler LHS is its design. It's a true luxury sedan that won't leave you wanting for more. From its Swiss watch-like gauges to its leather-upholstered interior, every detail is designed to provide you with a sense of luxury and refinement. To find out more about the 1999 Chrysler LHS, call 1.800.CHRYSLER or visit our Web site at www.chrysler.com.

From the first moment you get your hands on the all-new Chrysler LHS. To find out additional information about the 1999 Chrysler LHS, one point comes through loud and clear: call 1.800.CHRYSLER or visit our Web site at www.chrysler.com. This is a true luxury sedan that won't leave you wanting for more. From its Swiss watch-like gauges to its leather-upholstered interior, every detail is designed to provide you with a sense of luxury and refinement. To find out more about the 1999 Chrysler LHS, call 1.800.CHRYSLER or visit our Web site at www.chrysler.com.



ided the exciting performance of a sports sedan. The latter
zen the result of a 3.5 liter, 24-valve, all-aluminum, 253
nor power engine; speed-sensitive variable-assist steering;
fic wheel independent suspension; and even a low-speed

traction control system. All standard. All for the driver who
believes performance and luxury should go hand in hand.
The all-new Chrysler LHS. While no car can be all things to all
people, the all-new LHS is engineered to be all things to you.

The All New Chrysler LHS

Built on the belief that while

all cars appeal to our practical side,

the great ones appeal

to a more passionate side.

C H R Y S L E R



ENGINEERED TO BE GREAT CARS



EXECUTIVE FLEX-TIME

Booz Allen let Cedarbaum do a stint as a recruiter at Columbia B-school, which gave him time to help his ailing parents

and other initiatives to help employees cope with a consultant's grueling schedule. With unemployment at a 25-year low and salaries rising in related fields such as banking, all consulting firms are having a tough time hanging on to people. So Booz is hustling to cultivate employee loyalty and retain valuable talent, says Joni Bessler, vice-president for human resources for the company's 2,000-employee commercial consulting business. Quips Bessler: "We'd also like to put chains on the door."

NO BOND. Booz Allen is among hundreds of U. S. companies undergoing a sea change in relations between employer and employee. For most of the 1990s, downsizing set the tone for the modern employment contract. As companies frantically restructured to cope with slipping market share or heightened competition, they tore up old notions of paternalism. Don't expect to spend your life at one company anymore, they told

employees. You're responsible for your own career, so get all the skills you can and prepare to change jobs, employers, even industries. As for the implicit bond of loyalty that might have existed before—well, forget it, said employers. It's an unaffordable luxury in these days of fierce global competition.

After several years of tight labor markets, though, business is rediscovering the value of corporate loyalty. It's retooled this time—no one is even pre-

CORPORATIONS

WE WANT YOU TO STAY. REALLY

With labor tight, employers are starting to do more to keep workers

Last year, Harry Cedarbaum was caught in a classic baby-boomer crunch. His parents, who live in Europe, developed health problems and needed help closing the family business. But Cedarbaum, a father of two with a demanding job as a management consultant at Booz, Allen & Johnson Inc. in New York, simply had to help. So he signed up for a rotation plan Booz Allen had restarted, and in August, he was

assigned to a stint as a recruiter at Columbia University, his alma mater. That has allowed Cedarbaum, 38, to work fewer hours and squeeze in trips to Europe to help his parents. "I get several headhunter calls a week, but I made a commitment to the firm, and they made a commitment to me," says a grateful Cedarbaum. "This loyalty is an incredible thing."

Winning such loyalty is exactly why Booz Allen started the rotation program

The Workplace

tending to offer lifelong employment. But with turnover rates running at a 10-year high of 1.1% a month, executives are trying to send a new message to employees: Don't leave. We need you. Work for us—you can build a career here. Employers are going to great lengths to persuade employees that they want them to stay for years.

The new notion of loyalty is more arms-length than the old 30-years-and-a-watch mentality. It's more like a mutual commitment between employer and employee. "The company is responsible for providing the environment in which people can achieve their full potential, and employees are responsible for developing their skills," says Raymond V. Gilmartin, CEO of Merck & Co. "That's the key to our ability to attract and retain talent, and it defines the new employment relationship as I see it today."

SHIFT STRATEGY. Employers are trying all sorts of strategies to cement this new relationship. They're revamping rigid pay systems to make it easier for employees to move laterally to enhance their skills. Others even seek the loyalty of that archetypal footloose employee of the 1990s, the temp. And instead of just dumping excess workers when they downsize, some companies are moving skilled employees around in response to market shifts. Raytheon Co., which is slashing thousands of defense jobs, hopes to redeploy many engineers to its booming commercial units.

Companies also are installing new career-development programs to help employees plan their next moves up the ladder. The goal, says Carol Roberts, vice-president for people development at International Paper Co., is to let employees know that IP cares about their long-term future. "If a rival company is going to have that discussion with our employees, we better be willing to have it, too," she says.

Companies may not be moving fast



enough, though, to counter deep skepticism among employees who fear employers will toss them out with the next shift in corporate strategy. Indeed, more employees have negative views of their companies today, according to annual surveys of 450,000 employees, mostly at large companies, by Chicago-based International Survey Research Corp.

(ISR). Wages finally are beating inflation, according to the Bureau of Labor Statistics, but they have barely made up ground lost over the decade. So when employees see companies raking in record profits, the decent raise they finally got seems inadequate, says ISR CEO John R. Stanek.

Continual restructurings, even in boom times, sap morale. And layoff announcements—and the fear they generate among employees—have abated

MIXED MESSAGES

Xerox' efforts have earned temp worker Van Allen's loyalty—yet the company says it may shrink or close the center where he works

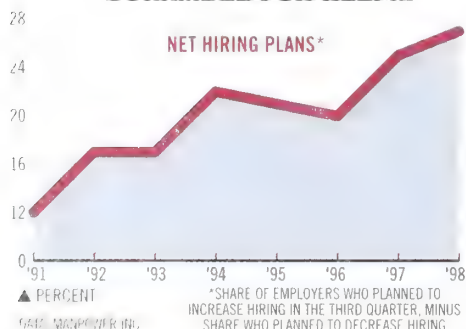
only slightly in recent years. So employees figure the company luring them with the promise of a light career still may dump them down the road. Worst-case executives think they're doing a better job of dealing with employees than in the early 1990s, even as employees' views of their deteriorate, ISR's surveys show (charts, page 72).

QUALITY DIVE. The danger for Corporate America is that the disconnect may sap productivity. If employees feel left behind by today's flush times, they may be less willing to put in the extra effort needed to keep customers happy, says execs and experts. "Employers can't ignore employees' anger fester, or it hurts quality," says Kaiser Permanente's David M. Lawrence. The health-care turmoil of recent years has generated tremendous anger among his 10,000

employees, he says. Kaiser is trying to cope by creating career opportunities and forming partnerships with unions. "But it's not getting there yet," says Lawrence. "We see these efforts as a 10-year investment to turn around employee attitudes."

Corporate efforts to nurture loyalty focus mostly on professionals, whose skills are in demand. Many employees are dusting off long-ago survival training and career-development programs, hoping to assure skittish employees

AS EMPLOYERS SCRAMBLE FOR HELP...



...THEY'RE REACHING OUT TO EMPLOYEES

- ▶ Helping workers develop skills to advance their careers
- ▶ Making it easier to change jobs within the company
- ▶ Redeploying workers from downsized units to expanding ones
- ▶ Persuading temporary workers to stay onboard

DATA: BUSINESS WEEK

wears starched shirts to the office.
wears spit-polished shoes to meetings.
hasn't worn pants all week.

who is he sleeping with?



WESTIN
HOTELS & RESORTS®

Even the most buttoned-up people relax
at a Westin resort. So don't pack much.
And plan on wearing even less.

Choose your travel partner wisely.®

Call your travel agent or
1-800-WESTIN-1
www.westin.com



The Workplace

Companies still haven't been able to overcome deep skepticism among employees, who fear they'll be tossed out with the next shift in strategy

their futures. Citibank, for instance, restructured throughout the 1990s and announced 9,000 additional job cuts last fall. But even before its recent merger with Travelers Group Inc. was announced, Citi expected its net employment to grow beyond today's 90,000, says Human Resources Senior Vice-President Marcela Perez De Alonso. Partly to offset anxiety, Citi set up a formal career-development program for 10,000 managers. Twice a year, they're reviewed to see what their next step should be, given what jobs are open. Up to 3,000 managers move in a typical year. "We want to make people feel that they have a long-term career with us," says Perez.

Such efforts often require fundamental shifts in how career decisions are made. Instead of simply allowing managers to decide when to promote their staff, human-resource departments are trying to set up formal procedures to make sure valued employees get attention. Last year, International Paper rolled out a new program for its 13,000 white-collar workers. Managers must sit down with employees every year, says Roberts, and discuss their career desires, separate from the annual performance review. Last year, about half of IP's managers followed the new plan, and CEO John T. Dillon wants the rest to follow suit this year.

OPPORTUNITY KNOCKS. If all this sounds vague and fuzzy, just ask Gerry Miovski how much difference long-term growth prospects make. Miovski, an architect in his late 20s, was promoted rapidly to head of commercial business development for the Northeast in the New Jersey office of Kagima, a huge Japanese contractor with many U.S. contracts. With commercial real estate booming, headhunters called all the time, but Miovski was happy in his job. Then, last fall, he got a call from HLW International, a large New York archi-

tectural firm setting up a new commercial-design unit. Miovski agreed to become the unit's business-development director, at no salary increase, because of the chance it offered to build an organization from the ground up. "The decision to move was more about where

benefits. He recently moved from general manager at a low-end Fairfield Inn in Peoria to human-resources director for a high-end Marriott Resorts hotel at Chicago's O'Hare airport. "I could even have applied for the job under the old system, because this job was at salary grades higher than the old ones," says Nalewanski. Adds Steve Babin, Marriott's head of career management: "The point is to attract and retain people by providing a broader vision of career opportunities."

Employers are trying to make corporate cultures more employee-friendly.

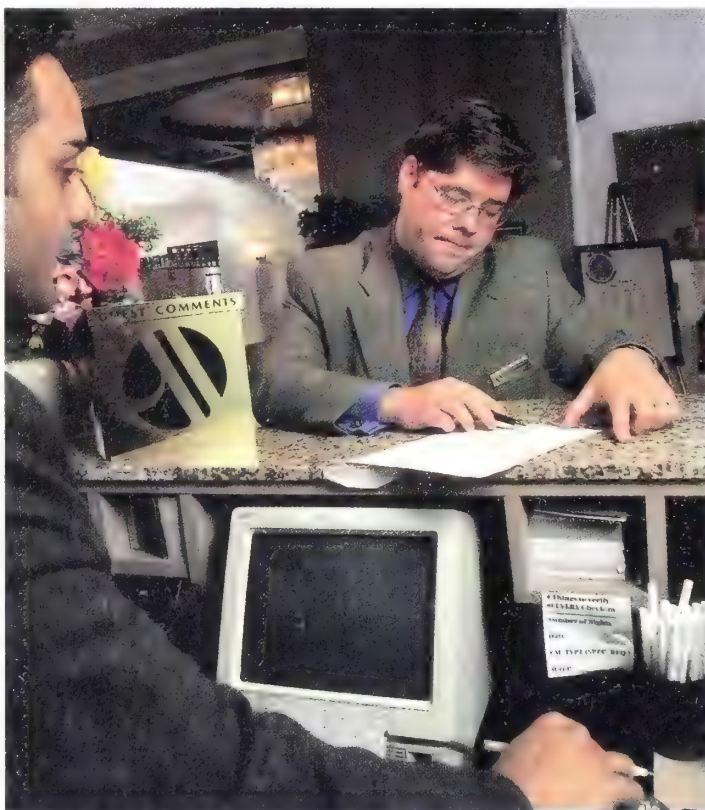
Like Booz Allen, they're putting more emphasis on programs to advance work and family issues and create more flexible workdays. Some also train executives to be less hierarchical. Last year, Merck set up a leadership program to teach managers to "balance getting things done with how people are treated on the job," says Howard Levine, the company's vice president for employment issues. Managers' bonuses are now linked to their leadership ability as well as the performance they deliver. And execs use "360-degree" reviews, in which superiors, peers, and subordinates assess them anonymously.

CEO Gilmartin softened the tone by doing a 360 review last fall. He used an outside firm to collect and summarize opinions about him from the dozen people on his management committee, as well as from Mr. Board of directors. "I want to learn your strengths and where you need to improve," says Gilmartin.

Tight labor markets are even changing the way employers approach restructurings. Layoff announcements in the first months are running at levels above the same period last year, according to Challenger, Gray & Christensen,

Inc., a Chicago outplacement firm. With today's job shortages, some companies try to retain employees who would have been cast aside before.

In January, defense-electronics Raytheon said it planned to slice 1,000 jobs, or 10% of its workforce, too.



"I'll be five or 10 years from now," says Miovski.

Companies also are trying to open opportunities for employees to broaden their skills. Last year, after a test run in Atlanta, Marriott International Inc. began expanding a new program to lump its 14,500 managers into four broad salary bands. Instead of assigning every job a grade level with a narrow salary range, managers now have wide latitude to get more pay or experience without a formal grade increase. The bands allow managers to seek broader opportunities across Marriott's 10 hotel chains.

Loren M. Nalewanski is reaping the

WIDE LATITUDE

A Marriott plan that does away with narrow grade and salary ranges gave Nalewanski a shot at a job he couldn't have applied for before



tough customer.



From boulevards to back roads. For legions of motorcycle enthusiasts nothing evokes the rugged spirit of America like the thunder of a Harley-Davidson®.  Rockwell automation systems help ensure the uncompromising standards of the Harley engines whose sound now excites the imagination of a new generation of riders.  Just as the successes of so many other equally demanding customers resonate with innovative answers from Rockwell.



Whether it's the semiconductor chip that lets a digital cellular user finish a long day's business on a single battery charge.  The avionics that guide

an airliner to a fog-shrouded island using satellite and microwave technology.  Or the call center technology that helps a small manufacturing firm handle customer inquiries as efficiently as a Fortune 500 company.



Bold ideas for those who refuse to conform to the status quo.  Because whatever your business, the bottom line is this.  *You succeed. We succeed.*SM

Rockwell

Electronic Controls and Communications
www.rockwell.com

The Workplace

update recent acquisitions of Hughes Aircraft Co. and the military business of Texas Instruments Inc. In the process, the Lexington (Mass.) company is cutting the jobs of 2,700 engineers, mostly in defense. Meanwhile, Raytheon's commercial side, which makes everything from aircraft parts to power plants, is booming. Those units need to hire as many as 5,000 engineers this year alone, officials say. The matchup of skills and slots isn't always exact, but Raytheon is doing all it can to redeploy engineers whose jobs are being cut. The company expects virtually all 2,700 to receive at least one job offer from another Raytheon unit.

TEMP TIES. Some employers are even bidding for the loyalty of contingent workers. Most large companies routinely use temporary-help agencies to fill jobs they don't want to make into permanent posts. But nowadays, companies must hustle just to keep their temps from jumping ship. Xerox Corp. employs 80 phone operators in the Denver suburb of Englewood to provide dispatching services for its repair technicians. Xerox subcontracts to Olsten Corp., a temp agency, for 60 of the operators, who work side by side with Xerox employees. They earn about one-third less, mostly because of fewer benefits, says site manager Steven M. Orton.

But unemployment in Denver, where many companies have call centers, is running at 2% or less. To reduce turnover, Orton has had to jack up hourly pay rates several times, and he also tries hard to make the Olsten workers feel like they're Xerox employees. The two groups have company picnics together, work in teams, and "are called special-assignment representatives, not temps," says Orton. Last year, Xerox began paying a \$300 bonus to Olsten workers who rejoin Xerox. Orton started the bonus after Xerox lawyers advised him that temps employed for more than 18 months might

be considered permanent Xerox employees. To avoid a legal problem, Olsten agreed to find other temp jobs for the Xerox staff every 18 months. But once operators left for elsewhere, some didn't come back.

To build loyalty and entice more back, Orton now pays every returnee \$100 a month for up to three months (which is how long the lawyers say temps have to

ing negative attitudes? One reason is the uncertainty that remains even as the economy booms, say human-resources experts. Some workers will still shun their jobs at Citi and Raytheon, for example, despite the companies' efforts. And Xerox is mulling whether to shut or close the Englewood unit in a few years, Orton says. Employees are caught to pick up on the mixed messages.



FIGHTING BACK

Boeing engineers have protested a plan to institute a merger partner McDonnell Douglas' benefits which they say are inferior

Employees are smarting at cost-cutting efforts, which continue at many companies. Even as Boeing hopes to hire 1,000 engineers in the past year, it also cutting benefits. Employees said in March they will put nonunion employees on a contract benefits plan after this year's merger with McDonnell Douglas Corp. The problem is, say officials of the Seattle Professional Engineers Employees Association (SPEEA), that Boeing decided to use McDonnell Douglas' inferior benefits as the benchmark. SPEEA represents 20,000 Boeing engineers who fear the company will demand that they adopt the new plan. Boeing denies that the new plan reduces benefits.

EMPLOYEES REMAIN ANXIOUS...



...AND MISTRUST MANAGEMENT



be off the payroll). They also get a bigger title, a better desk, and a sweatshirt that says: "I'm back." Says Orton: "You can't just treat temps as temps anymore, or you'll lose them. We tell people we want them to work here for years." His approach seems to be working. "MCI called me for an interview the other day, but I probably won't leave here," says Ray Van Allen, an Olsten worker who left Xerox for a three-month stint at U.S. West Inc. last fall and is now back at the Englewood center.

If employers are so eager to please employees, why do surveys show ris-

fits. SPEEA, which has held protest rallies, says such cost-cutting tactics explain the Boeing employee surveys show slipping morale in recent years.

Employers' traditional response to labor shortfalls is to buy employee loyalty with fatter paychecks and job-security promises. But today's no-price-hike economy forces companies to find ways to balance labor needs and budget pressures. The question executives face is how far they may have to go to win over workers who remain scarred by the turmoil of the past decade.

By Aaron Bernstein in Washington

MAGNIFICA



With Magnifica Class, Alitalia raises the standard of flying to a fine art.

Alitalia, the world's premier airline to Italy, presents Magnifica Class. A masterpiece of style and service that reflects the very best of Italy. Outstanding cuisine and superb service served with the warmth and friendliness that could only come from people who have turned living into an art form. Every detail in Magnifica is first class, from our luxurious, leather-trimmed seats to our award-winning, five-star meals

and international wine selection. Best of all, your Magnifica Class flight to Italy, including chauffeur-driven transfers in Rome and Milan, costs the same as a business class ticket. Alitalia offers superior service to 135 cities in 63 countries worldwide, so whatever your travel plans, call 800-223-5730 or visit our website at www.magnifica.com for more information. **MAGNIFICA CLASS. THE BEST OF ITALY.**



Alitalia participates in the frequent flier programs of Continental and US Airways. Newark flights operate in partnership with Continental Airlines and feature BusinessFirst service.

Alitalia



HOW TO KEEP A SECRET.

In transforming your business into an e-business, the single most important issue you have to wrestle with is the issue of security.

Without flexible control over who sees what information, all the benefits of putting your key business processes online (which is, after all, the definition of an e-business) are a moot point. And when you connect your critical systems to the Web to help you improve customer service or increase the efficiency of your organization – security is a white-knuckle issue for the people charged with keeping your systems running and your data protected.

It's not just a matter of whom you let in and whom you keep out (although that is obviously important). When you're using the Web (or an intranet) to do things like let your employees change the asset allocation of their 401(k) accounts or let your customers see what their credit balance is, you need the ability to determine who sees what and who can make changes to what they see.

IBM e-business solutions can help you manage access to the really important information you make available online. We've spent over three decades protecting the integrity of corporate information systems. We've pioneered things like Realtime Intrusion Detection, Anti Virus Labs, and Emergency Response Services. And we've made security an integral part of IBM e-business technology – so you can build Web sites that know how to keep a secret.

To keep up with the latest IBM security solutions for e-business, bookmark www.ibm.com/e-business. Or call us at 1 800 426 7080, extension NC31.



Solutions for a small planet[™]

BERNIE SALICK'S BUSINESS IS CANCER

Now he's bringing his vision of for-profit clinics to a nonprofit stronghold, New York

Dr. Bernard Salick is an accomplished physician, but his true calling is business. A kidney specialist, Salick parlayed his first medical practice into a string of dialysis centers back in the 1960s. He bought a pony for his three daughters and ended up building one of the largest commercial horse-breeding farms in California. When his middle daughter contracted bone cancer in 1983, Salick stopped practicing medicine and began building a pioneering national chain of cancer clinics under the name Salick Health Care Inc. He sold the business for \$480 million in 1995 but continued to run it until last year. "I am incapable of relaxing in the usual ways," he says. "I relax by making deals."

At 58, Dr. Salick is now immersed in the most demanding round of dealmaking in his hyperactive career. In 1997, he set up Bentley Health Care Inc. to develop two more national networks of outpatient clinics—one specializing in cancer and the other in HIV/AIDS. Salick is negotiating deals in a half-dozen cities, crisscrossing the country in his Gulfstream III jet from his base in Los Ange-

les. But the immediate focus of his ambition is New York City. A native New Yorker, Salick figures that the best way to establish his new company's bonafides nationally is to storm the country's largest and arguably most hidebound health-care market.

Salick's avowed goal is to serve at least 60% of all cancer and AIDS patients in New York. To do so, he plans to form partnerships with major hospital systems, which will then route patients

to his new facilities. It's his second stab at New York's lucrative market. In 1995, while still running Salick Health Care, Salick barged into the Big Apple with similarly ambitious plans. Although he succeeded in striking a deal with St. Vincent's, the city's largest Catholic hospital, his overall campaign foundered on the indifference and opposition of the city's medical Establishment.

Salick now plans to invest \$350 million to \$400 million over the next



EMPIRE BUILDER

Dr. Salick, at his California ranch, wants to capture 60% of the lucrative New York market in cancer and AIDS outpatient care

Before you dive headfirst into
digital copiers, we'd like to
re-introduce the art of thinking ahead.



When investing in a digital copier/printer, a little forethought can go a long way. Before taking the plunge, consider this: many digital copiers are painfully slow, non-networkable and require an advanced degree to operate.

Now consider the Océ 3165 digital copier/printer. It runs at a remarkably rapid 62 ppm. It can interact with any PC on virtually any network, maximizing your productivity by letting you print, copy, and collate right from your desk. And with Océ Image Logic, high-quality images, graphs and text are achieved without endless adjustments.

Invest in the smarter, faster, more productive Océ 3165. Otherwise, in the future, you may hear yourself sheepishly muttering, "In hindsight we should have gone with Océ."



The Océ 3165 digital copier/printer can be linked to your computer network this very minute or the minute you're ready.

Sharpen your digital acumen with your free Digital Copier Buyer's Guide. Call 1-888-462-3872, ext. 143. For general copier enlightenment, visit www.oceusa.com



B R A I N S B E H I N D B E T T E R D O C U M E N T S™

New York City accounts for 15% of the \$50 billion a year spent on cancer care—and much of that is up for grabs

years to build as many as 12 cancer clinics and up to eight AIDS clinics spanning the entire New York metropolitan area. Expert opinion is divided on Salick's prospects, but one thing is certain: Bentley's outpatient invasion sets a new standard of audacity for Salick, an irrepressible bear of a man who gives every impression of loving the sound of his own roaring voice.

DEEP ANTIPATHY. For a start, New York City is home to a handful of the most prestigious academic medical institutions in the country. To succeed, Salick will have to lure patients away from Memorial Sloan-Kettering Cancer Center, arguably the finest cancer hospital in America, if not the world. (Ironically, it was a Sloan-Kettering physician who saved Salick's daughter from a rare cancer that is fatal in 9 cases out of 10.)

Antipathy to medicine as commerce runs deep in New York, one of the few states that still effectively bars corporate ownership of hospitals or clinics. If that has helped make New York a world-class hub of medical research and education, it also has kept health-care costs far above the national average. In the last two years, however, the protective facade has started to crack under pressure from employers, insurers, and consumers. "This city is absolutely ripe for change," Salick thunders.

Bentley's New York venture is being watched across the country as an important test of the rising power of consumerism in U.S. health care. "The Salick vision is a patient-centric one," says Dr. David Levy, chairman and CEO of Franklin Health Inc., a large managed-care consulting firm. "He has a chance to show that when you do the right thing for patients, it doesn't have to cost more. In fact, it can cost less."

Salick is off to a promising start. In February, Bentley formed a partnership with Montefiore Medical Center, a charter member of New York's medical elite, to build three cancer clinics and one for AIDS. "We have gotten over the shock that initially defined our response to a for-profit company like Salick Health Care," says Dr. Spencer Foreman, president of Montefiore. "Now, all the not-for-profits are looking for every possible way to grow their business and maintain what they've got."

The stakes are huge. In cancer alone, New York City is thought to account for

10% to 15% of the \$50 billion spent annually in the U.S. Based on the most recent government data for hospital discharges, Sloan-Kettering has 14% of the New York cancer market, about double the share of each of its half dozen closest rivals, Montefiore included. The remainder—roughly 57%—is shared by more than 100 other hospitals.

On May 20, Bentley dropped a second bombshell: a preliminary agreement with Mt. Sinai Medical Center to develop up to four more cancer centers. In addition, Maimonides Medical Center, a Mt. Sinai affiliate, will combine with Bentley to build a fifth center in Brooklyn. (The pacts still must be approved by Mt. Sinai's and Maimonides' boards.) Says Dr. John W. Rowe, Mt. Sinai's

DR. BERNARD SALICK

BORN 1939, New York City

EDUCATION B.S. 1960, Queens College, mathematics; M.D. 1964, University of Southern California.

FAMILY Married 26 years to Gloria Salick. Three daughters: ages 24, 21, and 17.

BUSINESSES FOUNDED

USHAWL Dialysis Centers (1972), Century Dialysis (1979), Salick Health Care (1983), Bentley Health Care (1997).

PIVOTAL EVENT The Salicks' second daughter contracted a rare bone cancer in 1983 but survived 10-to-1 odds. "The day my daughter got cancer was the day I stopped practicing medicine."

LA-NYC FLIGHTS OVER THE LAST YEAR 21, all on his own Gulfstream III jet.

ON HOSPITALS "Hospitals are where you get murdered on cost. It's not that everyone's trying to cheat you. They're just very expensive to operate."

TOP PHILANTHROPIC PROJECT

A \$34 million AIDS research center at Queens College headed by Dr. Luc Montagnier, co-discoverer of the AIDS virus.

president: "The cancer market in New York is really up for grabs now."

Despite his new establishment Salick continues to skewer health-care sacred cows with glee. What medical executive other than Salick would use the words "hospital" and "murder" in the same sentence? As in: "Hospitals are where you go to get murdered on cost." Salick's new partners might not welcome all he says, but they admit being impressed with what he has accomplished. "I consider him a visionary," says Rowe.

In founding Salick Health Care in 1983, Salick became one of the first entrepreneurs to apply the lessons of the specialty retailing revolution to health care. In contrast to the traditional hospital—the department store of medicine—Salick centers treated only cancer patients and did so in a setting designed with their convenience and comfort uppermost in mind. These are self-contained facilities that looked and felt more like hotels than hospitals. They were equipped with all the technology and personnel needed to treat cancer. Salick built 11 such centers across the country, each of which was open around the clock, seven days a week—and offered valet parking to boot.

Salick Health Care also opened a window on modern health care's essential mystery: the link between the quality of care and its cost. From its meticulous maintenance of patient records, the company worked up detailed practice guidelines to standardize and refine the treatment of numerous types of cancer. By keeping accounts, Salick was able to improve medical outcomes for many patients while lowering the cost of care.

Even so, the big New York hospitals have been slow to adopt the lessons. Except for Sloan-Kettering, which boasts a massive endowment, they lack not only the management expertise but the wherewithal to build networks of disease-specific outpatient clinics. Under his agreements with Montefiore and Mt. Sinai, Salick provides all the capital needed—\$3 million per cancer clinic and \$5 million for an AIDS clinic. The clinics will not be owned by Bentley but by its partners, each of which will pay the complete fee to develop, manage, and market the facilities. Montefiore and Mt. Sinai supply the clinics with physicians and

Mitsubishi Has Shipped More Embedded DRAM Than All Other Suppliers Combined.



"eRAM"™ stands for "embedded random access memory"—Mitsubishi's brand name for its silicon process technology, products and systems expertise that integrate memory and system-level core functions in the same integrated circuit to enable unprecedented system performance. eRAM encompasses Mitsubishi's proven ability to combine memory — especially DRAM— microprocessor, and other logic core functions in a single piece of silicon. And, it's scalable across your product lines, which helps you save design costs and get to market faster.

Mitsubishi's HyperDRAM™ process technology and manufacturing

capabilities helped a company—NeoMagic Corporation—to revolution-

ize an industry by "mobilizing multimedia". And it can do the same for

you. We've shipped over ~~seven~~ ¹⁰ million embedded DRAM systems-on-

a-chip during the past three years*. That's more than all other suppliers

combined. Our process technology is moving to the 0.25µm level and

lower — fast. Embedded DRAM isn't a dream, it's a reality. What else

would you expect from a leader?

*As of May 1995



MITSUBISHI ELECTRIC

www.eram.com
408.774.3189

MITSUBISHI ELECTRONICS AMERICA, INC.
ELECTRONIC DEVICE GROUP

MITSUBISHI ELECTRIC CORPORATION
SEMICONDUCTOR GROUP

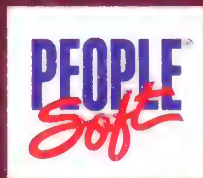
© 1998 PeopleSoft, Inc. PeopleSoft and the PeopleSoft logo are registered trademarks of PeopleSoft, Inc.



Something as intricate as your supply chain cannot be easily simplified. But PeopleSoft Supply Chain Management can introduce some sanity into the process. It encompasses everything from forecasting customer demand to delivering

ON A RELATED TOPIC, HOW'S YOUR SUPPLY CHAIN?

products on time. What's more, our experience across the entire enterprise allows you to integrate all aspects of your global supply chain, uniting your front and back offices. All you have to do is take the next exit: www.peoplesoft.com/sc or 1-888-773-8277.



We work in your world.

As he did at his old company, Salick wants to set up clinics that seem more like hotels than hospitals

exert sole authority over all medical decisions.

Buoyed by his success at Montefiore and Mt. Sinai, Salick is continuing talks with other hospitals in pursuit of his 20-clinic goal. Salick and Sloan-Kettering officials have discussed various joint ventures over the years, but have never been able to reach agreement. They broke off their most recent round of talks a few months ago, leaving Salick plainly exasperated.

"Sloan-Kettering thinks of itself as the Mecca of cancer; you must come to Mecca if you require complicated care," he says. "My concept is the opposite: to bring quality care to the outer boroughs and to the suburbs." Says John R. Gunn, Sloan-Kettering's executive vice-president, tongue only slightly-in-cheek: "We admire old Bernie. He shakes things up."

IVORY TOWERS. Salick, a self-described "Jewish kid from the Lower East Side," grew up 70 blocks away but a world removed from Sloan-Kettering's ivory towers. He was born in 1939, just a few years after his parents emigrated from Romania. His father rotated through a series of low-paying menial jobs. Not until the early 1950s could he afford to move his family to Queens. "We were poor, but we didn't realize it because everyone we knew was poor, too," Salick says. "I had the typical immigrant Jewish upbringing. The emphasis was education, education, education. My parents gave me two choices: I could be a doctor or a lawyer."

By the time Salick graduated from Queens College in 1960, his parents had moved to Los Angeles. He followed them, attending medical school at the University of Southern California. Salick set up his own medical practice in Beverly Hills and used whatever was left after making his student-loan payments to buy up dialysis units one by one. In 1975, he sold his dialysis operation to the highflying conglomerate Damon Corp. for stock. When Damon ran into financial trouble in the early 1980s,

Salick spied opportunity amid calamity and offered to buy back his dialysis business. About the same time, he beat out a couple of big companies for a contract to manage the dialysis operations at Los Angeles' Cedars-Sinai Medical Center. All Salick lacked now was capital.

Enter Michael R. Milken and Drexel Burnham Lambert Inc. Then at the height of his powers, the junk-bond king easily raised the money Salick needed to

the very next day. Zeneca has refused all comment on the demotion.

For his part, Salick claims that Zeneca management initially committed to financing his bold expansion plans but lost nerve. However, it appears that Salick's old company may give him a real shot for his money in New York. Its first clinic is slated to open at St. Vincent's in the next year—a good two years before Bentley is likely to complete the takeover.



Montefiore CEO Lawrence D. Piro, an oncologist and former Salick protégé who comes CEO of Sloan-Kettering Health Care on July 1.

Salick is hardly the first strong-willed entrepreneur to run afoul of his new bosses. But his admirers are quick to excuse his cantankerousness. "When Bernie says that the people he's dealing with aren't at the same level of concern (for patient care), he gets really upset," says Jeffrey C. Barbare, chairman and CEO of

DOWNTOWN RIVAL

Dr. Lawrence Piro, who runs Salick's old company, is opening a cancer clinic in New York a good two years ahead of Bentley's

buy back his dialysis business and also took Salick Health Care public in 1985 to finance its diversification into cancer care. By the early 1990s, Salick's company was solidly established as a profitable, well-run growth company. In 1995, Salick decided that the best way to secure the capital he needed to accelerate his company's expansion was to sell it to Zeneca Group PLC, a British pharmaceutical giant that is a leading manufacturer of cancer drugs.

Salick stayed on to lead Salick Health under a contract running through 1999. But in early 1997, Zeneca stripped Salick of his authority, offering him the post of chairman emeritus. He resigned in a huff and began organizing Bentley

hospital giant Tenet Healthcare Corp. and a longtime friend of Salick's.

No one doubts Salick's passion, but some of his longtime business associates believe that his crusader's edge comes mixed with baser motives. "He's a tough, tough guy to deal with because there's only one way to do it, and that's his way," says one former colleague. "With him, it's all about ego."

Call it what you will, Salick's single-minded intensity will only take him so far in New York. Montefiore's Dr. Foran and Mt. Sinai's Dr. Rowe are formidable figures in their own right, with constituencies of employees, physicians and patients that must be accommodated as Bentley painstakingly transforms paper pacts with the hospitals into brick and mortar. In the end, Bernie Salick's ambitious drive to supplant Sloan-Kettering as the pivotal institution in New York cancer care may well hinge on his ability to do something for which he has never shown much aptitude: compromise.

By Anthony Bianco in New York



You're the fastest growing Internet service provider.
But for how long?

There's a company that knows how to keep you number one.

ACCELERATING SUCCESS

We at Nortel can help you deliver the high-speed data your Internet customers will want at a very affordable price. In Manhattan, we helped Transwire Communications offer a reliable, around-the-clock extended network that rapidly attracted new customers. Our vision is Webtone: an Internet that's accessible, reliable and secure. We're providing the bandwidth you need to deliver new access speeds and services. If you want to keep your Internet customers happy and your profits high, visit www.nortel.com/success1. Or call us at 1-800-4NORTEL. We'll help speed your success.

NORTEL
NORTHERN TELECOM



HP Vectra VL with Windows NT starting at \$1,309*

Gone are the days of airplane food, baggage checks and jet lag. Armed with HP Vectra TopTools running on Windows NT® Workstation, you'll never even have to leave your chair. Your department can instantly learn with a few clicks of the mouse what's where, which software is installed and whose machines are in need of immediate attention. Or find out up to 400 other items about the makes, models, speeds, types and settings of the PCs themselves. On thousands of machines simultaneously. No matter where they are: in separate buildings, different cities or even different parts of the world. In addition, the affordable HP Vectra with Windows NT offers scalability, reliability and security. What else would you expect from the fastest growing PC supplier? For more information visit us at www.hp.com/vectra/wnt.



HEWLETT
PACKARD

Expanding Possibilities

THE HOUDINI OF CONSUMER ELECTRONICS

Dick Schulze has pulled off an astonishing turnaround at his Best Buy chain

Richard M. Schulze is living proof of the old saying: What doesn't destroy you makes you stronger. As founder and CEO of Best Buy Co., the country's No. 2 consumer-electronics chain, Schulze has seen his stores nearly wiped out a half dozen times over the past three decades—once literally by a tornado. And each time, Best Buy, now an \$8 billion business with 289 outlets, comes back bigger and stronger.

But none of his earlier ups and downs compare with the one Schulze, 57, has just dug out of. In late 1996, Schulze nearly buried his company with a giant miscalculation on Christmas computer inventories. Unable to pay its vendors for mountains of unsold PCs, Best Buy seemed destined for the dustbin, following such one-time highfliers as No-

in the past 15 months, to a split-adjusted \$36. "Best Buy's recovery has been nothing short of spectacular," says Mark D. Mandel, an analyst with ABN Amro, a Dutch investment bank.

A driven competitor whose only interest outside of work and family seems to be his Beechcraft jet—a picture of it sits among family photographs on his office bookshelf—Schulze earned nearly

time and encouraged his son to go full-time while still in high school. Schulze landed at a Montgomery Ward store as a stock boy. For a time, Schulze had hoped to go to college and get a degree in liberal arts. But after a stint in the Air National Guard, Schulze says he reluctantly went to work for his father's electronics distribution company.

Schulze showed a knack for hav-



SURVIVOR

The '81 tornado was tough, but Schulze had to weather a bigger crisis in '96: Piles of unsold PCs

body Beats the Wiz, Crazy Eddie's, and Tandy's Incredible Universe. At Best Buy's annual meeting a year ago, angry shareholders were clamoring for Schulze's resignation. "It was hard to listen to," he recalls. "It was tough."

But Schulze managed to squeak by. And after a drastic overhaul of Best Buy's operations, the combative Schulze is breathing easy again. Margins and profits are up, and Best Buy shares, which tanked in 1997, have soared 900%

\$2 million in salary alone last year. And his 21% Best Buy stake is now worth \$680 million. A natural-born salesman, Schulze is a natty dresser with gleaming cuff links, well-shined shoes, and a taste for elegance reflected in the mahogany bookshelves, oriental rugs, and Queen Anne-style furniture in his office.

Growing up in St. Paul, Minn., Schulze never imagined he would one day have so much. His stern German father, Warren, didn't believe in wasting

electronic gear to retailers, but that was meager. And his father, who had since passed away, was deaf to Schulze's ideas for improving operations. In five years, he quit to start his own audio store. "My father never expected me to walk away from him," he says.

Breaking away proved a smart move. It was 1966, and teenage boomers were not buying enough hi-fi stereos. Using contacts as a product rep, Schulze started up existing retail stores and "re-

Documents are digital. Documents are paper.

Can't get your digital and paper networks together?

Don't get mad, get a Document Centre.



Need hard copies of digital files? Want to scan paper documents into your network? A Xerox Document Centre lets you print, fax, copy, staple, even collate from your desktop.

Its powerful CentreWare software gives you an intuitive interface that eliminates steps and saves time. Even lets you scan at

incredible speed. And since the Document Centre is modular, you configure it the way you want, and only pay for what you need.

To learn how your digital and paper networks can work better together, go to www.documentcentre.com. Or, if you prefer, call 1-800-ASK-XEROX, ext. 317.



THE DOCUMENT COMPANY

XEROX

I know which button



SHE'S THREE KEYSTROKES AWAY FROM BRINGING YOUR NETWORK TO ITS KNEES. UNDERSTANDING THE POWER OF NETWORK ASSOCIATES FOR THEIR NETWORK SECURITY AND MANAGEMENT. IF SO, BREATHING A SILENT PRAYER FOR A SHORTNESS OF BREATH. TO FIND OUT MORE ABOUT NETWORK PROTECTION, VISIT WWW.NAI.COM

to push.

are ones that give me access

McAfee Total Virus Defense

all your confidential files.}

PGP Total Network Security

Sniffer Total Network Visibility

McAfee Total Service Desk

COURSE, YOU'RE PART OF THE 80% OF THE FORTUNE 100 WHO HAVE CHOSEN

IF NOT, IT'S PROBABLY NOT HER LOOKS GIVING YOU

CALL 1-800-332-9966, DEPT. 1935. OK, NOW EXHALE.



Who's watching your network

had better business acumen and could do what they did better," says Duane Hoff, Schulze's son-in-law, who later joined the company and now works as a buyer. The new store, called Sound of Music, pulled in \$1 million its first year and made about \$58,000 in profits. Schulze's take-home pay was \$17,000, slightly more than he made working for his dad.

TWISTER TWIST. Over the next decade, Schulze opened nine stores. Following boomers to the expanding suburbs around St. Paul, he became a regional powerhouse, selling everything from electric guitars to VCRs, and, later, household appliances. Then, in 1981, a tornado destroyed his largest and most profitable store. The tornado turned the showroom into rubble. But it spared the storeroom, where customers dived for safety. Schulze decided to hold a huge sale in the parking lot. He poured his \$25,000 marketing budget into thousands of flyers and radio spots advertising a "Tornado Sale."

On the big day, Schulze closed his other stores and put all 65 employees to work in the parking lot. Shoppers came in droves, causing a two-mile traffic jam around the store. To ensure no one went away empty-handed, Schulze hauled in TVs and stereos by the truckload from his other outlets. "We couldn't let all those people go away mad," says daughter Susan Hoff, now a company vice-president.

Thanks to the tornado, Schulze had hit on the combination that would allow him to build a giant in the U.S. retail market: heavy advertising, a large selection of goods in one location, and low prices. Schulze put up everything he owned as collateral to finance his first 18,000-square-foot superstore. It was the first of dozens of outlets modeled after Circuit City Stores Inc., says Best Buy President Bradbury H. Anderson, who has been with Schulze since the start. Changing the name to the catchier "Best

Best Buy's consultant-led overhaul appears to be working. Operating profits are way up, and the stock price has jumped 900% in 15 months

Buy," Schulze—and the company—went deep into hock to expand. "He risked everything, even his family's security," recalls Richard Schaak, who then owned a competing chain that has since folded.

To keep the expansion drive going, Schulze tapped the equity markets in 1985, even though "I don't think he knew what a share was," recalls his friend and attorney, Elliot S. Kaplan. The \$8 million let Schulze expand the chain to 40 stores by 1989. To help run his growing empire, Schulze quickly promoted half a dozen of his young staffers to management roles. And he put his eldest daughter and her husband to work for the company full-time.

But along with growth came a slew of problems that caught Schulze by surprise. In 1989, he did away with com-

missioned salespeople, turning Best Buy outlets into electronic grocery stores. But suppliers were outraged that staffers wouldn't be pushing their products. Some, including Whirlpool Corp. and Maytag Corp., pulled out. "We were losing so many brands that local reps thought we were dead," says Anderson.

Meantime, Schulze was piling on more debt—at \$271 million, it hit 72% of equity by 1995. And some in his team wondered if ambition had finally gotten the better of Schulze. He was determined to turn Best Buy into a \$50 billion business, up from \$4 billion. "I wasn't sure he was grounded," says Anderson. "He radiated confidence when it didn't look like there was much to be confident about."

By 1996, Schulze had 251 stores. But then he made a huge error: Expecting unprecedented sales over the 1995

Christmas season and fearing an inventory shortfall, he borrowed heavily to add \$300 million in merchandise—mostly computers. Almost as soon as the merchandise was unloaded at warehouses, though, Schulze began hearing from suppliers that Intel Corp. was about to introduce a new multimedia Pentium processor.

Best Buy's inventory was about to become obsolete. "We pleaded with Intel not to make the announcement," says Schulze, who made his case directly to Intel Chairman Andrew S. Grove. "He just said to hell with us." Sales tax increased. Two months into 1997, Schulze had to get vendors and creditors to agree to extra 60 days to pay the bills. (Schulze says he does not recall the incident.) Intel officials add that the company had to close its product schedule nine months in advance.

TWO-YEAR PLAN. With short-seller-led analysts pelting the company and creditors nervously watching his every move, Schulze had little time to act. Even his father was pressuring him to ease out of the business. Having already promised his wife that he would wind down, "I let her for two more years to get it back on track," he says. "I didn't have the courage to ask for more than that."

Salvation came in the form of Andersen Consulting, which sent a team of three dozen to do triage. "It had to be done," says Schulze. But the medicine was bitter. The store's product mix was slashed and plans for new stores were put on hold as the consultants hauled everything from marketing to inventory controls. Hardest of all: The homegrown team of executives who had been running the company for years gave way to 40 new vice-presidents mostly recruited from the outside.

The changes seem to be working. Last year, operating profits shot up 359%, to \$187 million, on \$8.4 billion in sales. Investors are "a lot richer than they were," says Schulze. And Schulze, whose favorite pastime is to be thumbing his nose at the naysayers who bet Best Buy would falter. "I really like to squeeze those naysayers," he jokes. For now, he can't wait to laugh. Best Buy is more solid than it has ever been. And no one, except his wife, is asking Schulze to slow down.

By De'Ann Weimer in Minneapolis

DICK SCHULZE

BORN 1941, Minneapolis.

EDUCATION Central High School, St. Paul, 1959.

FAMILY Married for 36 years to Sandra Larkin Schulze. Four grown children, three grandchildren.

REASON FOR STARTING BEST BUY Unhappy with low commissions as a rep for his father's consumer-products distribution company.

FAVORITE POSSESSION Beechcraft 400 airplane.

FAVORITE BEST BUY PRODUCT DVD players.

LEAST FAVORITE PEOPLE Wall Street short-sellers. "It feels good to squeeze those little rascals," says Schulze.

BIGGEST SURPRISE Never thought daughters would want to work for him. Two now do.

HIS LICENSE PLATE READS DRIVEN.

HOBBIES Golf, fishing, going to Vikings and Twins games.

Become receptive to new ideas.

*Like capturing
ideas as fast as you
can write them down.*

*Like focusing
attention on the
meeting, and not
on taking notes.*

*Like printing notes
daily from the board.
Mouse clicks.
Keystrokes.*

*Like displaying
and editing ideas
in color.*

*Like using a new
technology without
changing the way
you work.*

*Like sharing full-
color meeting notes
with team members via
email or the Internet.*

*Like saving accurate
meeting notes to your PC—
for everyone, automatically.*

Introducing the 3M Ideaboard IB3000 Series. It's obviously useful and absolutely simple. For more information about 3M Advanced Meeting Solutions, call 1-800-952-4059 or visit www.3M.com/meetings

Make the meeting.

3M Innovation



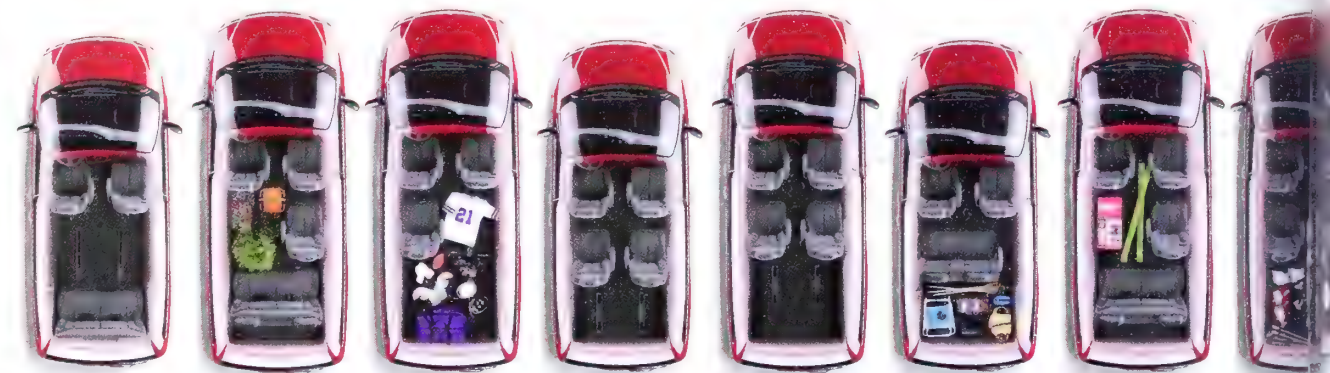
Dodge Caravan was named an *Automobile Magazine* All-Star.

It configures.

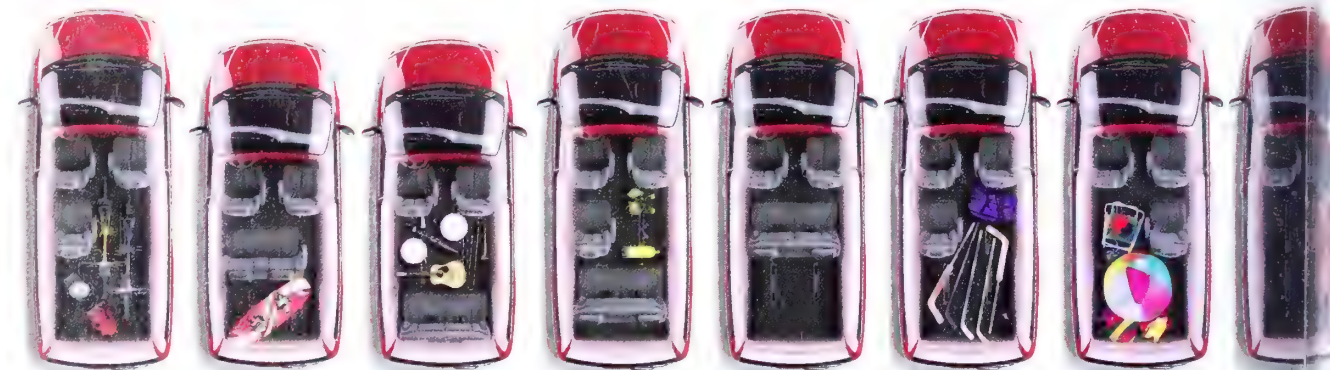
The editors of Automobile Magazine love Dodge Caravan for the same reason the



the interior into a variety of configurations is an exercise in convenience, not an



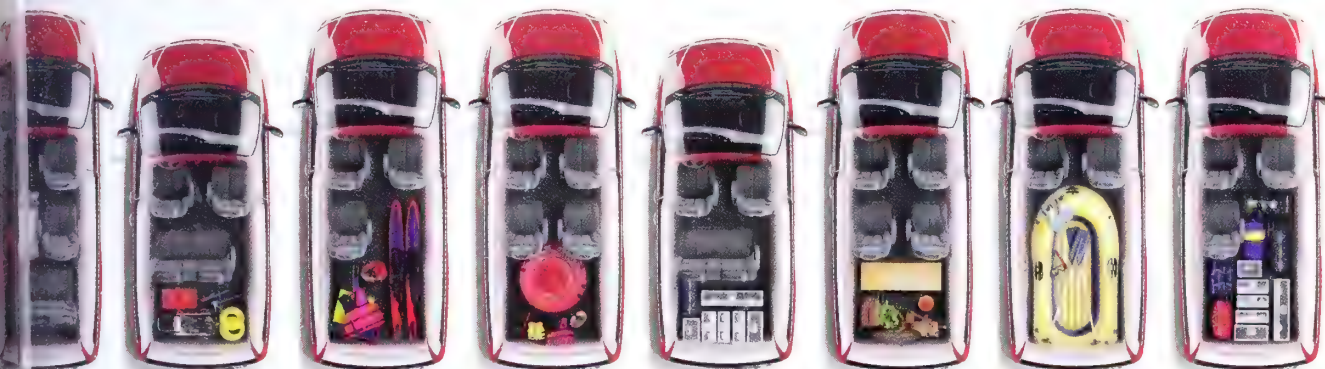
the longer wheelbase Grand Caravan, is 37. Which we figure is just about right for



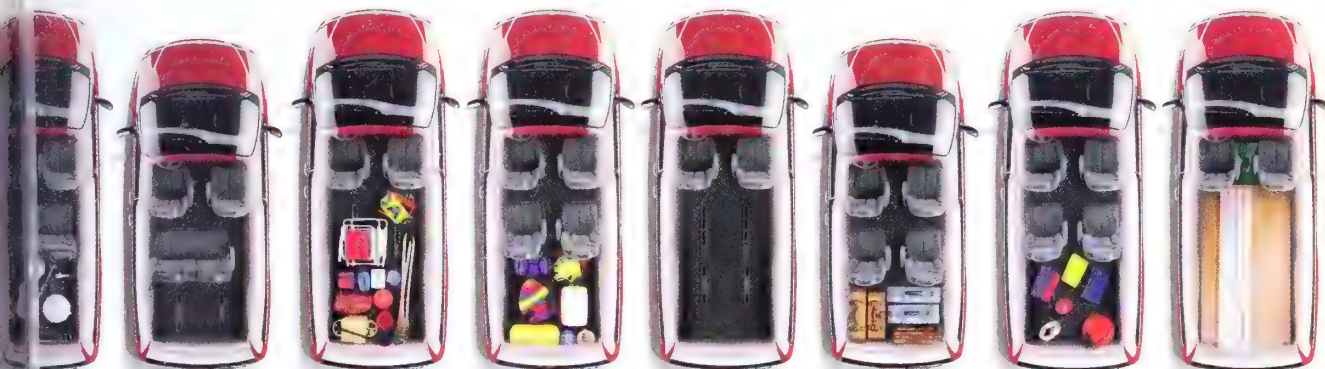
call 1-800-4-A-DODGE or roll your cursor over to: www.4adodge.com



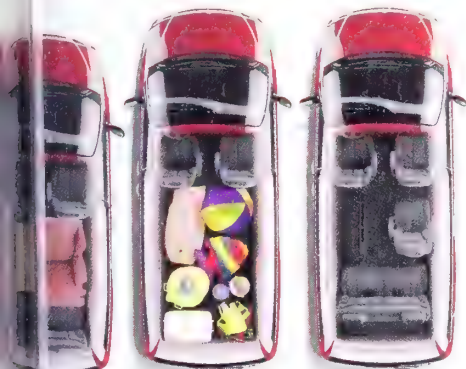
of us do. Caravan's fantastic versatility. With Easy Out Roller Seats™, arranging



exercise in ... well ... exercise. The total number of configurations in all, including



average Saturday. To learn more about this Automobile Magazine 1998 All-Star,



Caravan  The New Dodge

Always use seat belts. Remember a backseat is the safest place for children. Properly secure all cargo.



STRATEGIES

SMALL AIRLINE, TRICKY FLIGHT PLAN

Can ATA take on the majors without antagonizing them?

For the past two years, the major airlines have all but owned the skyways to and from the nation's largest cities. A strong economy combined with the 1996 ValuJet Airlines Inc. crash have left consumers less interested in low-fare airlines. And the lack of landing slots in major airports—which are more concentrated than ever in the hands of the big carriers—has made it difficult for startups even to gain entry. The result: The six largest airlines' profits jumped 70% last year, to \$4.8 billion.

That has low-fare airlines thin on the ground—and in the air. Aside from nimble Southwest Airlines Co., few challengers have successfully competed head-to-head on major routes. But in early May, American Trans Air Inc., a \$783 million Indianapolis-based carrier, set out to do just that. Though it's less than one-

tenth the size of \$17.4 billion United Airlines Inc., upstart ATA began competing with the industry giant on flights between Chicago and Denver; United's two largest hubs. As if that weren't enough, ATA is also taking on American Airlines Inc. between its top two hubs, Dallas and Chicago. And come July, it will invade New York's LaGuardia Airport.

It's a risky strategy. American and United have already started cutting

Flying Into Battle

Regional ATA goes head to head with the giants.

	AMERICAN/UNITED*	ATA*
CHICAGO TO DENVER	\$582	\$348
CHICAGO TO DALLAS	578	354
CHICAGO TO NEW YORK	509	312

* Highest walk-up rate for one-way fare

THE CHALLENGERS: ATA's Tague and Mikelsons are competing in busy

fares in reaction to ATA's moves. John P. Tague, ATA's 35-year-old executive, is nothing if not ambitious. He claims the airline is now "positioned to be the breakout carrier of the '90s." The key, he says, is finding high-demand routes and serving them in a way that minimizes the response of the major carriers. Whether he succeeds or not, Tague's moves will test Washington's recently declared plans to better protect the allegedly anti-competitive practices of the dominant airlines.

RADAR SCREENS. In many ways, ATA's bid is not so different from a host of others who've failed in attempts to take on the majors. It schedules just a few flights a day but to stay off the giant radar screens, ATA is counting on important differences. For example, by focusing its low-frills service on markets such as Chicago, where limited airport space has kept fares high. In that way, it hopes to carve out a niche without threatening the majors' lucrative lock on the business travelers who demand plenty of departures, frequent-flyer programs, and first-class cabins. "It's a pretty smart strategy," says Morten Beyer, president of aviation consulting firm Morten Beyer & Agnew Inc. in McLean, Va.

But so far, American and United aren't playing along with Tague's

You see coffee

We see data



©1998 Sprint Communications Company, L.P.

Two-thirds of the *Fortune 500*® rely on Sprint's vision of data

Every day, industry relies on data to sell products, satisfy customers and manage people and processes. That's why Sprint, as a leader in advanced data communications, offers a full portfolio of solutions for your applications — from simple e-mail to complex integration of voice, video and data. And that lets us give thousands of companies a competitive edge. We can do the same for you. **Because business runs on data. And data runs on Sprint.** www.sprint.com 1-888-730-DATA



We help your business do more business™

ATA is aiming at markets such as Chicago, where limited airport space kept fares high

plan. The two giants already have gone on the offensive. On Feb. 24, weeks after ATA announced it would begin serving Dallas from Midway Airport, Chicago's secondary airport, American said it, too, would resume limited Midway service. American, which flies mostly from O'Hare International Airport, hadn't flown to Dallas from Midway since 1992. American already has matched ATA's three daily flights each way and will add a fourth in July.

They're also playing hardball on price. Though ATA offers much cheaper walk-up fares on all routes, both American and United have started matching ATA's low fares on some seats reserved in advance. They recently offered a \$180 round-trip fare from Chicago to Dallas, matching ATA's price. Before ATA started flying the route, consumers would have had a hard time flying for less than \$300. American's strong response means the Midway-to-Dallas route will be "very much of an uphill battle," for ATA, says Samuel C. Buttrick, Paine Webber's airline analyst.

UNLIKELY COMBATANT. ATA is an unlikely combatant. Started as a travel club 25 years ago by J. George Mikelsons, a Latvian immigrant who will own 48% even after he sells 2 million shares this year, ATA prospered by building a strong leisure and military-charter business. Though it also offered limited scheduled service, it largely kept out of the way of the biggest carriers.

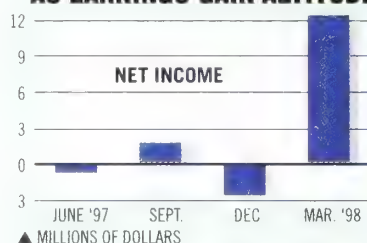
In recent years, however, the company has struggled to break even. The Indianapolis carrier launched its first expansion attempt just before the ValuJet crash. As frightened consumers steered clear of all startups, ATA ran up a \$28 million loss in 1996. And ValuJet still causes problems for ATA: many consumers confuse the two now that ValuJet has changed its moniker to AirTran Holdings Inc.

It took a year for ATA to recover, to a meager \$1.6 million in earnings for 1997. But by the first quarter of 1998, management had pared unprofitable routes and focused on building up its Midway service. That sent earnings for the quarter soaring to \$12.4 million, more than the company has ever made in an entire year. For 1998 as a whole, Salomon Smith Barney expects earnings to jump sharply, to \$24.8 million, on a 15% sales increase to over \$900 million. The result:

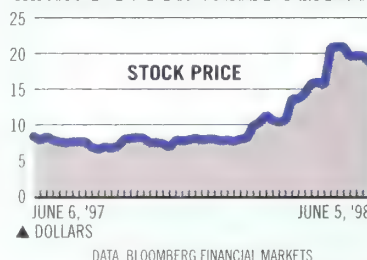
ATA's stock has more than doubled, to \$19, since January.

ATA's second attempt at expansion is certainly better grounded than its first. Back in 1996, the company focused its sights on markets such as Boston and Seattle, where it had almost no presence. This time, it's building up at Midway, which has long been its biggest base. The first time around, Tague and his executive team also mistakenly targeted vacation routes which already had plenty of price competition. Now, ATA is concentrating on high-priced routes where it can set itself apart with its low fares.

AS EARNINGS GAIN ALTITUDE...



...ATA'S STOCK TAKES FLIGHT



ATA's large planes and lean marketing budget have helped keep the carrier's costs the lowest in the business. It spends 6.1¢ per seat per mile flown, according to Black & Co., a Portland, Ore., investment firm. Compare that with 7.5¢ for Southwest, 9.5¢ for United, and 10.5¢ for American.

This low cost structure allows the upstart to beat the major's fares on many flights, and ATA says early bookings are strong. But industry observers say it has been a slow start. "We haven't seen a shift in bookings to ATA yet," says Marcie McCarthy, general manager of Carlson Leisure Group, a chain of 1,100 travel agencies.

American and United's swift reaction comes despite the Transportation Dept.'s current consideration of a new set of

guidelines aimed at curbing predatory behavior by large airlines. What typically kicks off an antitrust investigation, Justice Dept. lawyers say, is the combination of price cuts and added capacity, which can suggest an airline is deliberately losing money to drive out competitors. Though American's decision to end Midway appears to fit this profile, the Transportation and Justice Dept. officials decline to say whether they are looking into the situation.

The large airlines, including American and United, consistently maintain that they have never broken the law. American says its decision to fly out of Midway had nothing to do with ATA; instead, it came because the route fits well with its Dallas hub. Still, many in the industry are watching ATA's progress closely—and government action may mean the difference between whether ATA survives or succumbs to the carriers' pressure like many before it. "The wild card is what impact the new Department of Transportation guidelines will have," says Mark S. Kahan, chief operating officer of Spirit Airlines.

ATA's Chicago move would provide an ideal test case for their scrutiny. United and American have long benefited from government limits on the number of takeoff and landing slots in Chicago's major airport, O'Hare. Such limits apply to only four U.S. airports and have left Chicago chronically underserved. As a result, tickets cost about 35% above the national average, according to consultant Beyer. Midway, ATA's base, is smaller, but actually closer to downtown, and increasingly popular.

But even with higher prices, United and American still have some big advantages. They offer frequent-flyer programs, unlike ATA, and back-to-back flights. Flying United from Denver to Chicago means a choice of 15 flights a day; on ATA, if you miss the 3:55 p.m. flight west, you're stuck until 11:25 p.m. the next day.

Can ATA convince consumers going to Dallas, Denver, and New York to choose it over the big names? The upstart is betting it can blaze a new low-fare airline. But given the history of discount airlines, it may be flying into the wind.

By David Leonhardt in Indianapolis



FRANK'S A LUCKY GUY.

NO PROMISES WERE BROKEN.

Commitments made, trust given in return. Promises made and kept. It's basic to our philosophy.

We are not simply paper shufflers for hire. We ascribe to the highest standards of service, perhaps higher than you've come to expect from claims administrators. We check every box, make every phone call and follow every procedure because we know a claim delayed is suffering prolonged.

With local experts in 670 hometowns around the world, we stand ready to provide exactly what you need, exactly the way you need it. That is our promise, and we back it up with a money-on-the-table Performance Guarantee.

Whether property, liability or workers compensation, every claim represents individuals in distress. We are helping people reassemble their lives. We are acting for you, keeping your promises.



Joe Dunne, President, Cultor Food Science, Inc.

We made implementation short. Cultor Food Science made it sweet. Cultor Food

Science, developer and marketer of unique, high-performance food ingredients, needed a new

information system fast. And thanks to the *AcceleratedSAP™* program, they got it in just six

months. As a new company created through acquisition and consolidation, Cultor Food

Science selected SAP™ R/3™ to tie various operations together and provide

real-time information across the organization. Just half a year later, SAP

had all of the company's North American users live. Analyzing

ends. Formulating products. Driving manufacturing. R/3

was so successful that Cultor Food Science plans

to implement the program worldwide. That

could really sweeten the ROI. For

more information, visit us at

www.sap.com or call

800-283-

SAP.



A Better Return On Information.

COMEBACKS

GIBSON: IS SUCCESS IN THE CARDS?

A creative overhaul may not be enough against the big guys

In her spacious studio nestled in a wooded area in southwestern Ohio, Robin Moro double-clicks with a computer mouse. Onscreen, a spare and simple image of a dark green pickle appears. The artist tinkers with the card she's creating for Gibson Greetings Inc., the nation's No. 3 greeting-card company, and chuckles over the punch line: "I just had to make a big dill about your birthday."

Until last year, Moro had spent 12 years as an art director at Gibson. Then, she struck out on her own—about the time Frank J. O'Connell, a self-styled maverick who was Gibson's then-chief executive officer, cut loose much of the creative staff and hired some back on a contract basis. The idea: get closer to cultural trends and speed up development of flashy new products to compete with giants Hallmark Cards Inc. and American Greetings Corp.

In the 22 months since O'Connell swept in, Gibson has picked up the pace by introducing card lines for pet lovers, home chefs, and card-averse Generation-Xers. Sure enough, Moro's pickle card is one of 21 she did for Gibson in just two weeks. "Frank is really willing to open things up," she says. "Before, it took a full year to get a new card out."

But if Gibson is quicker on its feet these days, the \$398 million company still has to worry about getting stomped. Critics say he has done little more than stem years of losses through cost-cutting—and in a largely stagnant industry dominated by its giant rivals, there may not be much room for a distant No. 3. Now that O'Connell has resuscitated Gibson, the real question is whether he can find ways for it to grow.

Indeed, for all O'Connell's moves, Gibson hasn't yet made much of a dent against two giants that are adept at protecting their combined 75% share. Hallmark, with revenue of \$3.7 billion, and American Greetings, at \$2.2 billion, have used deep pockets to buy lots of shelf space. Hallmark says it got more than 1,000 stores to kick out rivals last year.

GOOFY GREETINGS

O'Connell has introduced lines of cards for Gen-Xers and pet lovers



A former exec at Reebok International Ltd. and Skybox International Inc., O'Connell, 55, relishes his self-described role as an enlightened outsider in "an industry in decline." He claims that by locking up shelf

space by paying retailers up-front fees, the industry's top two keep prices growing on cards that are boring. He wants retailers to allocate shelf space based on card sales. The industry, he says, "has lost track of the consumer."

DOGGED QUEST. Absolutely not, contend the industry's two Goliaths. Both are already fielding products similar to some of O'Connell's innovations. And execs at both companies scoff at the idea that they've stopped innovating. "I think Gibson's a little late to the party," says Jeffrey Weiss, senior vice-president for product development at American Greetings. "He's responding to a trend American Greetings has been leading for years."

For all his enthusiasm, O'Connell recognizes that the name of the game in cards is distribution. And that has proved to be an uphill climb for Gibson, who has seen its market share slip from 10% five years ago to about 7% today. Big retailers such as Wal-Mart Stores Inc. and Kmart Corp. have consolidated their card suppliers at the expense of smaller players. In April, Kroger food stores made Hallmark its only purveyor of additional cards. Rebounding, O'Connell

Kroger to agree to distribute Gibson's alternative cards in 200 stores. And by pushing into unconventional retail locations: The pet-food cards are hawked in pet stores and supermarkets' pet-food aisles.

More critically for Gibson's immediate survival, O'Connell has chopped costs. Outsourcing artists—and card printing—starting this year—will cut \$12 million in annual costs by the year 2000. O'Connell dragged Gibson from a \$46.5 million net loss in 1995 to net income of \$21.6 million last year.

That has lifted the company's sales price to about \$24, from \$12 in 1995. "He's more creative and energetic than just about any executive we've countered," says Whitney George, a portfolio analyst at New York investment house Royce & Associates, who has bought 1 million Gibson shares since O'Connell started.

But competitors and some analysts remain unconvinced that O'Connell's strategy can do more than temporarily shore up Gibson. "Long-term, I'm skeptical if it's the right thing to do," says Jeffrey S. Stein, a stock analyst at Cleveland's McDonald & Co. Investments. O'Connell vows to

the new product will lift sales 10% this year vs. 2% in 1997. "We're pushing all of the product out of the shelves as fast as we can get it there," he says. "This is our only way to deliver." And if he can't deliver with increased market penetration, hard-charging O'Connell will go down little more than a serious cost-cutter.

By Peter Gass
in Cincinnati

WISHING YOU WERE HERE

Why greeting-card makers struggle to find new customers:

- ▶ Annual growth of card sales is 1% or less
- ▶ Up to 85% of cards are bought by women 30 to 59 years old
- ▶ Consumers in their teens and 20s buy few cards

DATA: WHEAT FIRST BUTCHER SINGER

Special Report

ENTERPRISE

Timely Insights for Small Business

Box page 2

Age o' Stuff What happens to small-biz spending when the Dow dips, the return of pre-authorized checking, falling hub prices, and more

Finance page 4

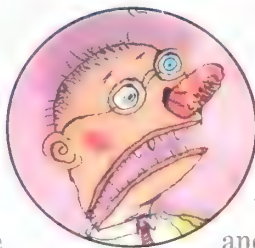
Money from Home Before you borrow or lend family capital, consider the risks—financial and emotional

Companies page 10

Bird in Hand The emu is one strange bird, but the challenges of the emu business are oddly familiar

Marketing page 16

Star Power A little TV or movie exposure could catapult a company out of obscurity. Here's how to get your product ready for its closeup



Technology page 18

Back It Up Systems for backing up data used to be complicated and burdensome. Now they're user-friendly and affordable

My Company page 24

Next! Succession is one of the toughest issues for a family business. Here's how one family worked it out

Buyers Guide page 26

Stamps of Approval Mechanical postage meters won't be legal much longer. A look at the new offerings

Downtime page 30

Enterprise Oscars In which we honor the best and worst of small business in film. And the winners are...



For more on small business, visit BW Plus! at www.businessweek.com or America Online at keyword: BWEnterprise

IN BOX

EDITED
BY
EDITH
UPDIKE

SO THEY SAY

"If a deal is south, it can really screw Christmas."

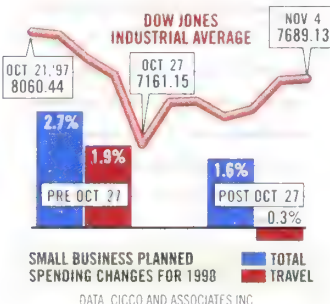
—Rolf Selvig, owner of Venture Corp., a San Francisco-based research firm, funding a startup with loans from family members (page 4)



BEARS AND BELT-TIGHTENING

What'll you do if the stock market tanks? Here's a clue: Each year, consulting firm Cicco & Associates Inc. surveys about 400 small-biz owners on spending plans for the coming year. About three-fourths of the way through the 1997 survey, on Oct. 27, the Dow plunged 550 points. In the 113 responses postmarked Oct. 27-Nov. 15, planned spending increases fell 50%, even though the market recovered 340 points the next day.

STOCKS AND STOCK ROOMS



Even computer purchases took a hit. Travel faced the deepest cuts. Only bank activity such as debt payment remained unchanged. Optimism returned in responses mailed after the Nov. 15 cutoff date as the market held steady.

THE CHECK ISN'T IN THE MAIL

A Depression-era payment system is on the comeback trail—driven by small business. Pre-authorized checking was once a popular way to make regular, fixed payments. It fell out of favor with big companies when electronic banking came along. But electronic funds transfers (EFT) can be costly for small companies, and customers are reluctant to allow electronic withdrawals from their accounts. Pre-authorized

checking improves cash flow by eliminating the time lag between billing and payment, and saves EFT fees and invoice costs. It also spares clients the hassle of writing and mailing checks. Market leader MICR Data Systems (212 255-5688) cut 6 million such checks last year, a 100% increase since 1992 that it credits to small-biz growth. National Bank Drafting Systems Inc. (800 968-3771) has licensed operators nationwide, or check the Web for other vendors. Systems differ, and the per-check price ranges from 9¢ to \$2.50.

How It Works: A Hypothetical Case

- 1** John A. Client agrees to pay \$100 on the first of each month, for one year. He writes a voided check to Jane A. Owner and signs an authorization form.
- 2** Owner sends the authorization form to Client's bank and gives the data on Client, taken from the voided check, to a pre-authorized checking firm.
- 3** The checking firm delivers to Jane Owner 12 checks for \$100, dated the first of each month, written against John Client's account.
- 4** Owner deposits or cashes the check on the first of each month, getting paid without mailing it or waiting for the check.

DATA: BUSINESS WEEK

IN AN IBM POLL, 55% OF SMALL-BIZ

OWNERS SAW TECHNOLOGY AS A COST CENTER RATHER THAN AN INVESTMENT

WHEN A GRUBSTAKE IS A FAMILY AFFAIR

"If a deal goes south, it can really screw up Christmas"



MARVELL'S DAI: Family investment meant "critical" cash—and confidence

When she needed capital years ago to develop her specialty computer chip, Dai didn't try to put together one of Silicon Valley's famous "grubstakes" right away. Instead, the 37-year-old computer scientist found financing closer to home, getting \$200,000 in equity financing from friends and \$150,000 from her parents, Chinese migrants who run a San Francisco

Marvell Technology Group Ltd., a company she launched early in 1991 with two fellow Berkeley graduates, since raised \$19 million from investment bankers and venture capitalists. In her initial grubstake, Dai says, was "covering rent and payroll during the start-up's first difficult months. So the family investments also pay dividends in self-confidence, Dai adds. "Those who get involved really know you and believe in you."

Welcome to the world of family financing. It's an approach to raising money as comfortable as a warm blanket, and as rewarding as a gift to themselves. Done right, it can provide patient capital, while building credit with other lenders and investors. Done wrong, it can break the very best of familial affection. No matter what, if a deal goes south, it can really screw up Christmas," observes Rolf Selvig, director of business development at VentureOne Corp., a San Francisco research firm.

PLENTY OF CASH. Long favored by entrepreneurs lacking access to commercial credit, friends-and-family financing appears to be gaining popularity. According to a 1996 survey of 800 male and female entrepreneurs by the National Foundation of Women Business Owners, 43% turned to personal sources for start-up capital. (Twenty-seven percent tapped family members and 7% to 9% were backed by friends.) In the most oft-cited previous study—a survey of 3,000 businesses by the National Federation of Independent Business—just 30% relied on friends and relatives for at least some start-up

Several converging trends could even more family financing. First, stock market gains, many families have more money than ever to invest when interest in entrepreneurship is booming. Then there's the \$13 trillion poised for transfer to the next generation in the coming 20 years. Some people are choosing to help their children while they're still alive.

But before you decide to bestow homegrown capital, consider

four more desks: \$625

second laser printer: \$999

larger conference table: \$755

becoming a bigger fish in the pond:



the new Executive BusinessCard has a higher credit limit and
a range of payment options designed to help manage your cash flow.
to learn how to apply, call 1-800-727-8825.



there are some things money can't buy.
for everything else there's MasterCard.

risks with material and emotional. Not every family deal goes as smoothly as Dai's. Patrick Kelly, a Boston-based management consultant, poured his savings, plus a bank loan, into a restaurant partnership with his brother-in-law in 1986. The two never put anything on paper, nor did Kelly check out leases and licenses critical to the deal, he concedes. When the place bellied up after 18 months, Kelly estimates that he lost the equivalent of about \$80,000—and something more. It "certainly divided our family," he says. He hasn't spoken to his sister or her spouse in 10 years.

BELOW COST. "In families, we are accepted unconditionally for who we are," says Paul Karofsky, executive director at Northeastern University's Center for Family Business in Needham, Mass. "In business we are recognized for what we do and how well we do it. Those are two entirely different value systems." They are easily confused, though.

"A lot of people don't want to say 'no' to family," says Alan L. Carsrud, senior lecturer at University of California-Los Angeles' John E. Anderson Graduate School of Management. He recalls a former student who convinced his new wife's uncle to invest \$300,000 in his promising cheesecake business. But the dotting investor failed to notice the product was selling at 25¢ per unit under cost. In the end, the young man lost the business, the money—and his marriage.

Even when things go as planned, a family loan can cause tension. Elizabeth Genel and her husband, lawyer Mark Nyman, used \$30,000 in loans from their parents as equity to qualify for a \$100,000 small business Administration loan. Their upscale fragrance and cosmetics store in Westport, Conn., is prospering, and they're living up to loan terms. Yet the couple feels every personal expenditure is subject to family scrutiny. "When we have gone on vacation, family members have said, 'How did you afford that?'" Nyman says.



EX: \$2 million in loans or gifts to his children

To head off such conflicts, Jeffrey Wolfson, a Boston attorney with a family-business practice, often urges clients to approach outside lenders before soliciting family funds. Too much dependency on relatives, he says, "can create confusion over roles and strain relations."

Involving an outside lender or investor helps give the family perspec-

tive on the proposed business the same token, bankers usually regard family contributions as the entrepreneur's equity—and hence that a start-up is more a hobby. "You don't want to go to an aunt or uncle and say, 'I need the money,'" observes Carl Heine, first vice-president at People's Bank in Bridgeport, Conn. A family commitment can also be leveraged for instance, getting a relative to guarantee a bank loan. That was the case for Eric Weinstein, owner of Specialty in Baltimore. Weinstein started his beachside acts business with about \$75,000 in savings and a \$50,000 bank loan signed by his father. He later anteed another loan for \$150,000. 13 years later, it's a \$6.5 million business with 45 employees.

So what are the guidelines for making family financing a success for everyone? First, go in with clear and reasonable expectations. Involve everyone, and get updates. Deborah Cannon, executive vice president at NationsBank in Dallas.

Experts suggest family lenders follow many of the procedures of commercial banks. Demand a meaningful business plan that includes well-researched and supported projections. Tor clear that the money is a loan, not a gift, draft a promissory note and a ten agreement specifying terms.

ALL IN THE FAMILY

Mixing blood and money can be risky, even in the most loving clans. But if mix you must, these tips can minimize problems:

- **GET IT IN WRITING** Document the amount and terms of the loan or investment or you could face tax and estate problems—and breed confusion about what's expected from each side.
- **BE CLEAR-EYED** Does the borrower have a solid business plan? A good character? A sense of purpose? Family harmony is best preserved by lending on a businesslike basis.
- **BE FLEXIBLE** Any business will face difficulties. Be prepared to make allowances by, for example, renegotiating terms.
- **DON'T LEND ALONE** If possible, don't be the sole source of capital. If a bank, angel, venture capitalist, or even friend is involved, it helps insure sound decisions.
- **KNOW YOUR PLACE** Make clear whether the family lender will help manage the business. The lender should get regular reports on the business' performance.
- **DON'T HOLD A GRUDGE** If you've done your homework before making a family loan, you'll have an easier time viewing losses as a business problem and not as a personal failure.

business starts with both sides should be willing to renegotiate and perhaps set up payments for a

Proper paperwork and written terms are especially important to avoid expensive and estate tax problems. Say you're an interest-free loan to a relative. The IRS rules that as a "gift" of the amount of the loan you should be charged based on set rates. If the cost of this "imputed" interest exceeds the tax-free yearly amount, you might be subject to both income and taxes. And if the lender discovers outstanding loans at your death, there's no formal



Talk with Toshiba

Every day, thousands of U.S. companies talk with Toshiba — Toshiba telephone and voice systems.

Why so popular? Toshiba quality and reliable operation.

Protecting your investment.

Toshiba communication systems are designed specifically for small to medium-sized companies and smaller corporate sites. Even with a small system, you get big features and service.



And any system can grow to as many as 400 lines without obsoleting the telephones you already own. Over time, a smart buy becomes a great investment.

Look us up. Look us over.

Visit us at <http://telecom.toshiba.com>. Or call us at (800) 222-5805 for one of over 500 authorized Toshiba sales and service locations nationwide.

After you talk with Toshiba, you may be one of the millions that talk with Toshiba every day.

In Touch with Tomorrow
TOSHIBA



Your mom forgot to tell 5,891,242,002 potential customers about your business.

Word of mouth is a good way to introduce your small business to a few people. But what if a few isn't enough?

Please meet Microsoft® Publisher. It gives you all of the tools you need, including design templates, to create materials such as brochures, newsletters and business cards, so you look like the professional you are.

What if you're ready to reach out and talk to the whole world? Microsoft FrontPage™ can help you create and manage your very own professional-looking Web site. Its easy-to-use templates and non-techy talk will have you up and running in no time, letting your customers instantly access the information they want and need.

Tying your PCs together makes managing your success even easier. With Microsoft BackOffice Small Business Server you can automatically keep your Web site fresh and up-to-date, and send brochures or newsletters to any or all of your customers via e-mail. Managing your communications from one secure, central location saves you time and energy so you can –you guessed it–get more customers.

We'll send you our free 16-page small business guide with CD-ROM when you call 1-800-60SOURCE.

We make software to meet your small business needs so you're ready, willing and able to deal with what's around the corner.

New customers. More new customers.

Where do you want to go today? **Microsoft®**

www.microsoft.com/smallbiz/

mentation, the whole loan could be deemed an unreported gift, meaning more penalties and interest, says John Dadakis, an estate tax lawyer at Rogers & Wells in New York.

PATIENCE, PATIENCE. Financial planners increasingly urge affluent elders to invest in their children's present pursuits as part of their overall investment strategy. Donald Ek, 62, has been doing that for several years. "I'd rather give the money to them with warm hands than with cold hands," he jokes. The retired plastics manufacturer, who now lives in Palm Beach Gardens, Fla., has disbursed some \$2 million in loans or gifts and co-signed bank loans to help finance businesses of his four grown children and their spouses. Without Ek's \$400,000 loan for expanding his showroom and inventory, son-in-law Rick Erickson says he'd have a \$1 million business repairing motorcycles, snowmobiles, and jet skis, not a \$7.2 million dealership. Although not every one of Ek's children has fastidiously repaid the loans, Ek says it's because of "usual" business problems. "We talk things over. What I won't accept is if they're not doing something to deal with the problem," he says.

Beyond all else, the patience of well-conceived family financing can be its greatest virtue. Consider the history of Santa Clara (Calif.)-based Aveo Inc. In 1987, Paul Hurley, the chairman and chief executive of the company, and his brother got \$300,000 from family in both debt and equity to launch Cypress Research Corp., a company that developed a fax-server telephony product to operate with Apple Computer Inc. computers. In part because of Apple's flagging sales, the market never materialized. But because the family stayed behind them, the Hurleys were able to regroup in 1991 as Aveo and create MegaPhone, a desktop-communications product that now commands \$4 million in sales. The company has raised \$6 million from venture capitalists and private investors and hopes to go public soon, Hurley says. He admits he felt guilty at times when he fell behind on loan payments, but says the guilt also prodded him to succeed. "Starting with family money is a great mechanism to teach you the value of protecting your investor's money and acting in his best interest," he declares.

If the venture capitalists made a good bet on Aveo, his family will not only be proud of him if the company goes public—their stock could be worth millions. That outcome, for any investor, is really something to write home about.

By Paul Sweeney in New York

AN EMU IN EVERY POT?

Strange bird, but the business problems are oddly familiar

In 1993, entrepreneur Anne Geller thought she'd found the bird that laid the golden egg. Geller was going to make her fortune breeding the emu, a cousin to the ostrich that has long been prized in its native Australia for its low-fat red meat and the reputed therapeutic properties of its oil. Although most Americans wouldn't know an emu from an egret, Geller was convinced that her emu business would soar once people realized they could wolf down a juicy red emu steak for less fat and calories than an equivalent serving of chicken.

Indeed, Geller was so persuaded of her idea's potential that she used profits from her and her husband's drywall construction business to start Thunder Ridge Emu Farm on her 27-acre property in Manassas, Va. She plunked down \$25,000 for a pair of breeders and \$30,000 for some pens. Back then, top breeding pairs could fetch up to \$50,000, and fertilized eggs up to \$1,000. If Geller's pair hatched about 22 chicks annually—the average birth rate—she figured she'd break even in a year. The rest was pure profit. "Everything looked very, very good on paper," says Geller, 53. "I was looking for short-term big bucks."

Like most business schemes that look foolproof, this one wasn't, and there was no magic spell to help. While Geller's quirky business may seem nothing like your own, her mistakes were classic: getting blinded by enthusiasm, failing to do her marketing homework, and plunging in without a plan.

First, inexperience tripped Geller's happy avian couple, put at the market's peak, turned two males, and yearlings—to mate—at that. The breed sold her two mo supposedly fem actually males \$50,000, I had the world's most sive stag party," she says. wound up suing and buying mo elsewhere. Then, in 1994, before

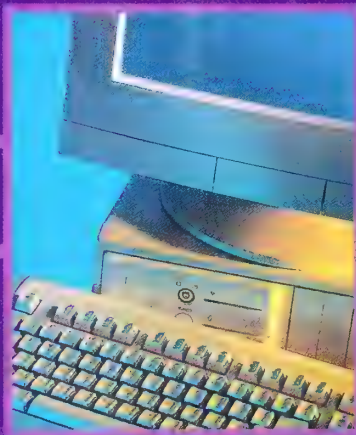
ENTREPRENEURS



HEALTH FOOD Geller and a low-fat friend

could cash in, the emu market Amid the clamor of eager spec no one had noticed the stifled yawn. Birds that had thousands could barely be given In Texas, the emu industry's

8:02 a.m. Installed network.
8:59 a.m. Connected with staff.
(In more ways than one.)



Introducing Intel InBusiness™ networking products for small business.

The hardest thing about setting up a small business network is getting over the idea that it's hard to do. Intel InBusiness™ products feature stackable hubs and switches specifically designed for your small business. With just four simple installation steps, anyone can set up a network quickly and easily.* So your team can share Internet access, e-mail, files, printers or deep thoughts.

For more information, call 1-800-538-3373, extension 670, or visit us at our Web site. So you can get in touch with your employees. Not to mention their PCs.

► www.intel.com/network/bw.htm

intel

Companies

can hub, some fed-up ranchers turned their birds loose or starved them to death.

Given that bleak scenario, you'd think Geller would've flown the coop by now—or should have. Instead, she has persisted, becoming a tireless promoter of all things emu. (Of the 6,000 American Emu Assn. members at the 1994 peak, just 1,768 remain.) No longer a quick-buck speculator, she's focusing on long-range growth, and the Virginia Department of Agriculture and Consumer Services is helping her draw up her first business plan.

"THIS IS OUR YEAR" In Geller's favor, she's a survivor who knows how to network and hustle—and takes rejection in stride. Her stubborn refusal to consider the possibility of failure is her strength—and potentially her Achilles heel. "This is our year," she says, despite the lack of any strong evidence. "I have a gut feeling."

Geller always has been a quick study, going from a career as a flight attendant in the 1960s to one on Wall Street, where she learned the arcane business of lending stock to short-sellers. Later, in 1984, she opened a quaint country store in downtown Manassas and, in 1986, she invested in her husband's dry-wall business as a silent partner. She wound up running it, despite knowing no more about a blueprint than that "it was supposed to be blue." Then, in 1994, Geller launched Relia-Care, which distributes medical supplies and equipment, such as gloves and wheelchairs, for home healthcare.

Thunder Ridge's flock, meanwhile, has grown to about 1,500 birds, hatching an average of 300 chicks a year. Besides Geller, there's one part-time employee who makes \$15,000 a year. Most of the farm's modest \$19,000 in revenue last year came from Geller's sales of prime cut emu steaks to about a half-dozen restaurants, with a fraction more coming from the sale of emu oil. When the blue-green speckled eggs don't hatch, she sells them to decorators for \$12 apiece.

It's an uphill battle, and Geller is loath to consider how much money she

Geller's quirky business may seem nothing like your own, but her mistakes were classic: getting blinded by enthusiasm and plunging in without a plan



HOPE IS A THING WITH FEATHERS

has lost. In an attempt to build some demand for emu products, Geller became a representative of the Virginia Emu Growers Assn., but egos and turf wars hampered marketing efforts. Then, on her own, she approached area chefs such as Marc Fusilier of the pricey Chez Marc in Manassas. He serves peppered emu medallions with white mushrooms. "It's not the most popular thing yet," says Fusilier. "It's good, though."

and the drive to buy low-fat food waned, according to Robert M. M., president of the New Products Case and Learning Center Inc. in Ica, N. Y., which studies why new products succeed or fail. Then, too, emu be one tough bird if you don't cook properly.

"What you need to do is to get a cooking column in America talking about emu, and that's hard to do," says

Nath. Geller is contacting advertising and public-relations agencies for help, but her budget is tight.

Besides selling emu burgers, steak, and eggs, Geller and others raise their greatest hopes for emu oil, long used as a folk remedy by Australia's aborigines. Recent studies at two universities and medical centers indicate emu oil may promote healing (it was done with mice.) In fact, emu oil may help only "the people who lack essential fats," says Dr. Hopkins, a professor at Philadelphia College of Podiatry and Science and a farmer.

Despite her difficulties, Geller dreams of the day when she's the Frank

of the emu business. To get there, she wants to expand her farm to 500 acres and do her own processing and marketing. But wooing investors won't be easy unless she can demonstrate a solid business there. "It's a race, how quickly, if ever, this market will develop," concedes T. Robins, a project manager at the agricultural department, who's advising Geller. "listening to Anne Geller, you'd think it's any minute now." And who's to say that her unflappable optimism will be the fairy dust that does the trick?

By Roy Furchgott in Manassas

A FLEDGLING COMPANY STRUGGLES

COMPANY Thunder Ridge Emu Farm, Manassas, Va.

BUSINESS Breeding Australian emus for meat, oil, and decorative eggs.

OWNER Anne Geller, also partner in husband's drywall business, owner of a country crafts store, and a medical supply business.

GOALS Expand market for emu products; find investors to develop vertically integrated operation, from breeding to slaughtering and packing.

PROSPECTS Iffy, considering lack of strong consumer interest, limited funds, and lack of industrywide marketing efforts. But Geller is fervent about emus and willing for now to support the venture with her other businesses.



EGGS THAT DON'T HATCH GET SOLD AS DECOR

Geller also tried to cultivate more plebeian palates by selling emu steaks at Price Club, but the warehouse chain pulled the product after a few weeks—the meat moved only when Geller personally cooked up samples in the store. Now, Geller is trying to reach distributors more efficiently through trade shows, such as an international food show in Chicago that generated "hundreds of leads."

But it is likely to take more than persistence and blind faith to make a success of Thunder Ridge. Emus have no name recognition with consumers,

HOOKED WITH THE NET. REELED IN BY **MAXIMIZER.**

ing Maximizer 5.0. The only contact management software you harness the power of the Internet to maximize growth.

has always helped you to land more business as the most powerful
tive customer and contact manager. Now, you can expect an
e bountiful catch with Maximizer 5.0. It offers unparalleled
and E-Commerce integration, with new features that guide you
he quick and easy steps needed to take your business online,
ting a professional Web site to accepting online orders in less
our! You can also use Maximizer 5.0 to flush out other new business
ities on the Net, as well as to access information about your
and competitors.

ver and flexibility than any other contact manager.

Maximizer 5.0 offers over 70 new contact management, workspace,
g and custom-reporting tools to help you organize and grow
ness. It is fully integrated with Microsoft Outlook, and it works
ular word processing and faxing software, and manages all
mail from the enhanced E-mail Center.

Maximizer 5.0 is the best way to manage your customers, to maximize
th and to do business over the Net. It's a catch for just \$149.
the most powerful customer and contact manager get away!

**contact manager maximizes the power of the Internet to
grow your business: Maximizer 5.0.**

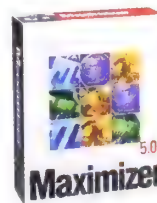
INTERNET FEATURES	MAXIMIZER 5.0	ACT! 4.0	GOLDMINE 4.0
Create your own E-Commerce Web site	YES	NO	NO
Establish online product/service catalog	YES	NO	NO
Free Web site hosting and promotion	YES	NO	NO
Research and acquire information using the Web	YES	YES	NO
Create contacts, documents and to-do's from E-mail messages	YES	NO	NO
Integrates with Microsoft Outlook; personal and shared message folders	YES	NO	NO
Perform broadcast E-mail merge using Word and WordPerfect	YES	YES	NO

Make the easy switch to Maximizer 5.0 from ACT! or GoldMine before July 31, 1998 and save \$30!*

Our free "Doing Business Online with Maximizer" booklet introduces you to E-Commerce and shows you how to get your business online easily.

Free Maximizer Link or Pocket Maximizer!

Order Maximizer 5.0 for \$149 plus shipping and handling before July 31, 1998. You'll get a full year money-back guarantee plus a free version of Maximizer Link for PalmPilot or Pocket Maximizer for Windows CE (a \$69 value).



Order now! Call 1-888-535-4013.

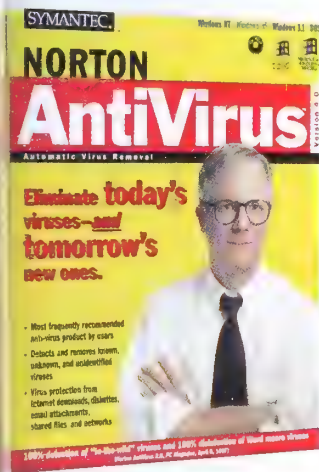
Visit us on the Internet at: www.maximizer.com/businessweek

WALK
THROUGH
WALLS



With Norton[™] Products Inside Your Computer There Are No Barriers to Achieving Your Goals.

Down go the barriers. Up goes productivity, whether you're at home or at the office. With Norton products you walk through the walls between you and your goals. Norton products eradicate viruses, blow away junk files, and eliminate software problems before they cause crashes. All behind the scenes, automatically. Go ahead, take the first step.



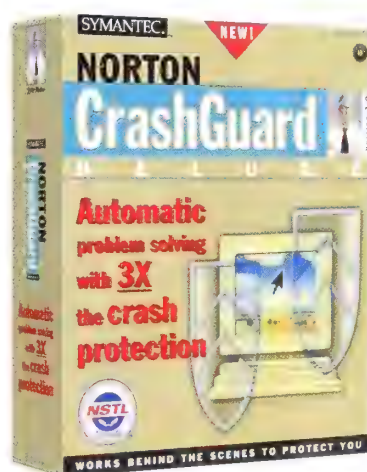
Norton AntiVirus[™] 4.0

are data without sharing viruses. eradicate and kill known viruses from y source so you can safely roam e web, get email attachments, are floppies and use network s. It works behind the scenes provide continuous protection, you can work with confidence, hout the hassles of chewed-up s and programs.



Norton Uninstall[™] Deluxe

Cut through the clutter and be more productive. Automatically clean up junk files and programs that drag down your PC's performance. Maintain custom settings and preferences when copying or moving programs. Try new programs without performance and software conflicts. You'll fly through your tasks without old files and programs dragging you down.



Norton CrashGuard[™] Deluxe

Lead a crash-free life. Automatically rid your PC of crash-causing software problems; check for conflicts and download fixes via the Internet; and optimize your hard drive for top performance. No more lost files or screen freezes. You'll enjoy more time to do as you please, free from irritating crashes and unproductive downtime.

Get what you want from your computer. Feel like you can walk through walls with Norton products. Visit your nearest retailer to buy these Windows[®] 95 products or try them risk-free

www.symantec.com/promos/nci04.html

No Viruses, No Junk, No Crashes, No Barriers.

SYMANTEC[™]

ntec, the Symantec logo, and Norton AntiVirus are U.S. registered trademarks of Symantec Corporation. Norton, Norton Uninstall, and Norton CrashGuard are trademarks of Symantec Corporation. Windows, and the Windows logo are registered trademarks of Microsoft Corporation. All other brand names or trademarks are the property of their respective owners.

YOU OUGHT TO BE IN PICTURES

Product placement isn't only for the big guys. Find out what's cooking and offer to help

Fans of Robert Redford's new film, *The Horse Whisperer*, may gush over the breathtaking vistas of Montana or Redford's passionate love scenes. But for John Marriott, the high point comes when the camera lingers on a computer screen, starting a 30-second sequence featuring his company's Web site, equisearch.com. "Part of the reason we bought the company was the tremendous exposure it was going to get in this movie," says Marriott, who became president and co-owner of EquiSearch.com LLC, a five-person Londonderry (N.H.) business, last December.

That half-minute of make-believe is making a real difference for EquiSearch, which lists horses, equipment, and farms for sale worldwide and provides all sorts of information for equestrians. Not only is traffic on the site up about 40% since early May but ad revenues jumped over 400% from March to April alone, sparked by the movie connection. (It doesn't hurt that the movie's official Web site offers a link to EquiSearch's site.)

Talk about star power. As EquiSearch has seen, product placement—getting a business or product into the plot or onto the set of a movie or TV show—can help catapult a company out of obscurity.

After Tom Cruise prominently sipped the Jamaican brew Red Stripe in *The Firm*, for example, sales increased 50%, the company says. "You can't get any more powerful exposure—except maybe word from a friend who swears by a product," says Robert J. Thomas, a marketing professor at Georgetown University in Washington.

Ever since that lovable alien E.T.



PRODUCT PLACEMENT

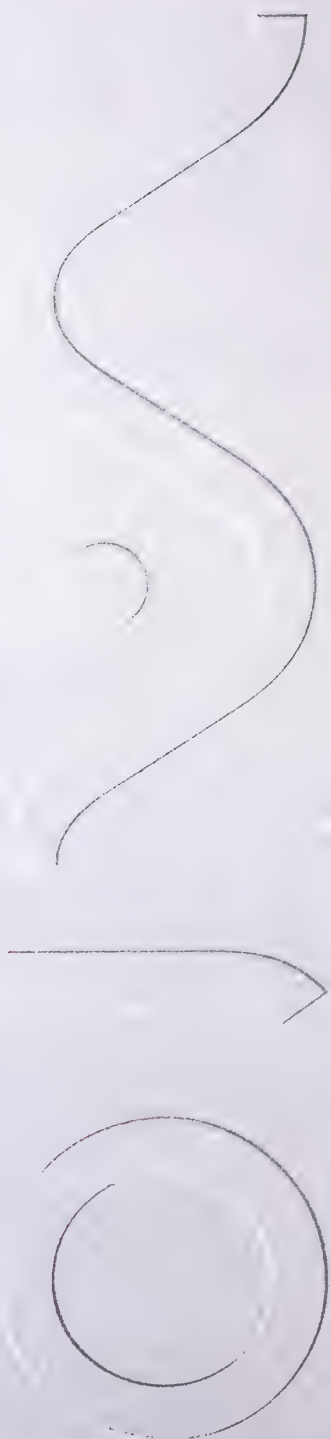
gobbled up Reese's Pieces in 1982, big consumer-products companies have included placement in their marketing arsenal. While they sometimes pay six figures for choice spots, small companies on shoestring budgets can play, too. How is that possible? Your product or business might lend local color or fill a specific need. If you've any doubt that that's valuable publicity, consider how *Seinfeld* turned small businesses such as Love Discount Stores, H&H Bagels, and Tom's Restaurant into stars.

How much does placement cost? If you do it yourself, expenses might be just the merchandise, phone calls, and postage. Your investment of time, however, can be huge, so it can be expedient to use an agency. Typically, they will charge as little as \$500 for a one-time placement to \$20,000 for a guaran-

teed number of placements over a year. RAM Sports Inc. in Denver, with \$1 million in sales and 50 employees, spends up to 20% of its \$250,000 marketing budget to place Classic Fan sport balls, which compete with Visco and Spalding. Its agency has won placements in *Flubber*, *He Got Game*, and other films. RAM co-owner and CEO Randy Jones says: "When we have a exposure, our phone rings off the hook."

What if you don't have an agency? Having an ear to the ground helps. For months, EquiSearch founder Kristin Griscom had heard buzz about *The Horse Whisperer* in equestrian circles and learned through a friend that Touchstone Pictures needed an equine consultant on the set. Griscom, who has since sold her stake in EquiSearch and is its director of site development, eagerly became its adviser. Later, she

SONY

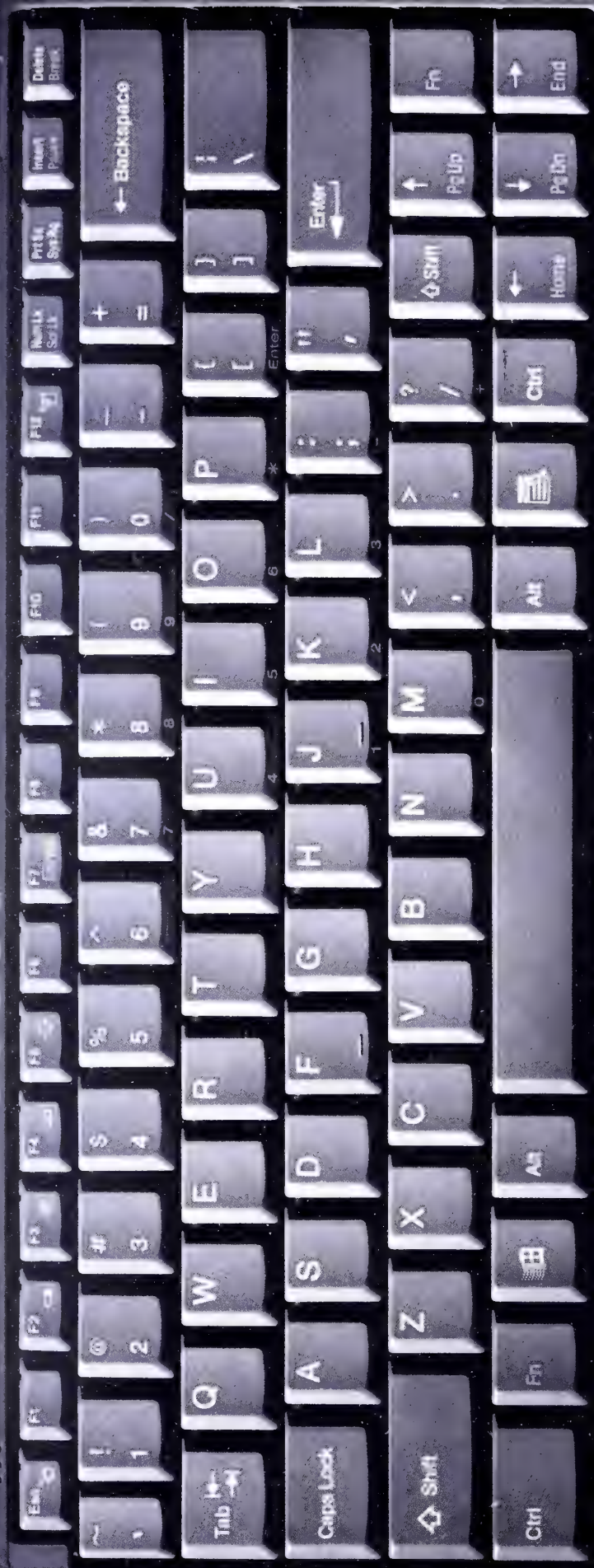


This is a life-size demonstration of the new Sony VAIO 505.

step 1: Place on lap.

step 2: Begin typing.

step 3: Stop typing before people start looking at you funny.



As small as a magazine. As light as a magazine.

Introducing the Sony VAIO 505 SuperSlim notebook.
Shown here actual size.

Less than 1 inch thick.

Less than 3 pounds.

Sleek magnesium-alloy case.

Built-in high-speed modem.

i.LINK™ (IEEE-1394) port.*

Runs full Windows 98.

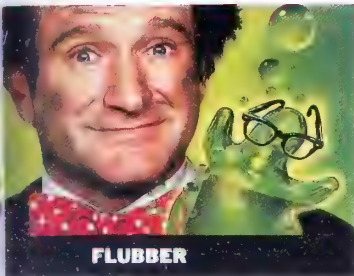
266 MHz Intel® Pentium® processor with MMX™ Technology.*

Quite a bit more functional than a magazine.

Get your VAIO 505 notebook starting July 24 at your local Circuit City, COMP USA, Computer City, the good guys! or direct, from Sony at Sony VAIO Direct at 1-877-SONY NOW, or on the web at www.sony.com/505

SONY

Marketing



FLUBBER



SEINFELD



THE HORSE WHISPERER

ON A SCREEN NEAR YOU

ports placed its Classic brand balls in the Robin Williams comedy Flubber, Seinfeld featured several

businesses on Manhattan's Upper West Side, and Robert Redford's The Horse Whisperer gave EquiSearch a boost

one decided its female protagonist would go online and read about the trainer (Redford) on the Web, it offered equisearch.com, providing free the fictional content and more. Altogether, says Griscom: "I've spent more than a hundred hours on this, it's absolutely worth it because people are very culty people." The fortune, friend-of-a-friend connection, and a niche product helped in the case. But anyone who is persistent can network their way too. Start by understanding the right venues. "Pick shows you understand and that your customer can see," advises Linda Demer, production coordinator for NBC's *Mad About You*.

D FAST. To keep abreast of upcoming productions, scan local newspapers and the entertainment industry and call your state film-production office. (More and more have one, too.) Your product needs a strong historical or connection to a production where it fits. You may have to phone a number of studios and production companies to make the right connection. (table). Once you do, be prepared to guarantee a free, timely placement of your wares. "If there's a connection and yours is available, it's a win-win," says Debbie Hemela, publisher of *Debbie's Book*, a Los Angeles set-decorating catalog. Promoting your name around the industry helps, too. Magnetic Media, a \$6 million Minneapolis company with 25 employees, does a lot of its magnetic word products. Fashion designer Cynthia Rowley passed them out to Hollywood pals. That helped her sell movie and TV sets, including the movie *Conspiracy The-*

ory, with Mel Gibson and Julia Roberts.

In Denver, scrappy Pumpkin Masters Inc., a 16-employee company that sells jack-o'-lantern carving kits, has doggedly exploited its Halloween niche. It works without an agent to get its tools—and, more often, the pumpkins carved with them—onto dozens of TV and movie sets. Marketing staffer Cheryl Stoughton scoured *Variety* to learn of upcoming productions, took out a \$200 ad in *Debbie's Book*, and spent hundreds of hours phoning studios and following up with press kits. Now, she says: "The studios are coming to us." Once Pumpkin Masters got its pumpkins onto *Roseanne* and other shows, Stoughton hyped the connection at Halloween trade shows and subsequently won orders from Wal-Mart Stores Inc. and other chains.

Not everyone is cut out for self-promotion, which is why some turn to agents. Agencies offer Hollywood connections and a staff of script-screener who are on the lookout for good placement opportunities. Also, they are experienced at securing agreements to ensure placement in wholesome contexts.

UNPLEASANT SURPRISE? Whatever the approach, be prepared for setbacks. Your product could end up on the cutting room floor or be barely noticeable onscreen. And if you use an agency, choose carefully. Ask for references and make sure they document placements well. And remember: Your placement could make you cringe. Barry C. Levin, president of Snak King Corp. in City of Industry, Calif., recalls how in one film, "a couple of guys in a machine-gun battle flew through our racks in a pool of blood."

If you do score a choice placement, don't drop the ball. Followup can make the placement work for you long after the spotlight fades—even if the screen time was minimal. Try a flashy display at your next trade show, the way Pumpkin Masters did, use a still shot in your brochure, or brag about it to the press.

As David Kappell, president and founder of Magnetic Poetry, has learned, one glimpse isn't enough—even on Mel Gibson's fridge. "They say people have to have seven exposures before making a buying decision," says Kappell, "and that's what I'm working on." Place a product today, and if you're lucky, maybe tomorrow, someone will remember. And if not—well, that's show biz.

By Dale Buss in Rochester Hills, Mich.

For more on product placement, visit BW Plus! at www.businessweek.com.

A PLACE IN THE LIMELIGHT

Here's a sampling of resources to help you with product placement.

DEBBIE'S BOOK Advertise your company's product in this major set-decorating catalog. www.debbiesbook.com or 626 798-7968.

SET DECORATORS Try networking with their union, Local 44 of the Affiliated Property Craftspersons at 818 769-2500.

ASSOCIATION OF FILM COMMISSIONERS Contact state film commissions to learn about upcoming productions that might be able to use your products or brand. 213 462-6092.

MAJOR STUDIOS For production-resources departments see *Quigley's International Motion Picture Almanac* or *Quigley's International TV & Video Almanac* 800 231-8239.

ENTERTAINMENT RESOURCES & MARKETING ASSN. represents placement professionals for hire. For articles on product placement or for info on members go to www.erma.org. President Dean Ayres is at 818 892-1700.

BACK UP EARLY AND OFTEN

Making sure your data survives when your hard drive bites the dust



If you think all hard-drive meltdowns are the same, you're wrong. Kathy Hochman's desperate scramble with the unruffled recovery of David Emblidge.

Hochman, a member of Loyalty Partnership Ltd., a 15-person management-consulting firm in New York, knew that her Apple PowerMacintosh 8500 was limping badly, but she decided to forge ahead with pressing work anyway. When the hard drive died the following day, she was completely stuck: no contact manager, no invoices, no client work—and no copies of anything. It took two weeks (and \$1,500) for a data-recovery specialist in California to restore her files. But no one could replace her lost time. "When you have a small

business, you have to be an octopus," she says. "[Otherwise,] you drop things." Like backups.

Emblidge, on the other hand, made daily tape backups of his work but wanted even more protection. So the Great Barrington (Mass.) book producer, who gets manuscripts ready for printing, bought an internal Zip drive. Ironically, his attempt to install it caused a crash, and he was unable to reboot. Within a few hours, however, he and his computer consultant retrieved the most recent backup tape from his home and installed the backup software. Emblidge was back in business—with all his files intact.

Face it. Chances are, there's a hard drive somewhere in your business that

will self-destruct. And when it comes, who will you be: Hochman or Emblidge?

These days, "not buying a backup solution is inexcusable," says Mike Biasio, sales manager at Data Systems Inc., a computer-consulting firm in Gaithersburg, Md. In the past years, systems that used to be complicated and burdensome have become user-friendly and affordable. And now, you have many backup systems to choose from. You need to do is figure out which one suits your needs best.

The options fall into three categories: tape systems, removable drives, and Internet-based services. Tape-driven backups get the most votes from com-

HARDWARE



What's it going to take for your office of five to serve your clients like an office of fifty? You need a Lucent small business phone system. We specifically design our phone systems to fit the needs of businesses like yours. With features such as built-in caller ID and voicemail you'll be more accessible, more efficient and therefore better able to take care of your customers' needs. Plus, our systems are designed to grow easily as your company grows, and are backed by a wide choice of service programs. We're with you for the long haul. So even with a handful of employees, to your customers you'll be big-time all the time. To set up an appointment, just give us a call today at 1-800-325-7466 ext. 332 or contact your local Lucent Authorized Dealer. **We make the things that make communications work.™**

Every customer likes to be treated as if they're the best customer you have. That's why you need a Lucent small business phone system. We specifically design our phone systems to fit the needs of businesses like yours. With features such as built-in caller ID and voicemail you'll be more accessible, more efficient and therefore better able to take care of your customers' needs. Plus, our systems are designed to grow easily as your company grows, and are backed by a wide choice of service programs. We're with you for the long haul. So even with a handful of employees, to your customers you'll be big-time all the time. To set up an appointment, just give us a call today at 1-800-325-7466 ext. 332 or contact your local Lucent Authorized Dealer.

Lucent Technologies
 Self Labs Innovations

211 Mt. Airy Road
 Basking Ridge, NJ 07920
 1-800-325-7466 ext. 332



consultants, and they're particularly recommended for businesses that use central file servers. Tape drives, which resemble small cassette recorders, will store all your data automatically on tape cartridges, which come in varying sizes. All you need to do is set the drives to back up at designated times each day.

There are two main types of tape drives and cartridges: those that use quarter-inch tape and those that employ 8-mm digital audio tape (DAT). Quarter-inch drives, such as Iomega Corp.'s Ditto Max or Hewlett-Packard Co.'s Colorado, are cheaper than DAT, and they're sufficient for most small businesses. Count on spending \$200 to \$270, depending on the model, at your local computer store for the tape drive and software. Depending on the type of drive, tapes cost from \$7 for the bare minimum to \$40 for high-capacity varieties.

Make sure you buy tapes with enough capacity to back up your entire hard drive. Buy at least five, one for each business day, so you can do daily backups. Then, you can reuse the tapes the following week.

Tape drives are generally designed for easy installation. But if you would rather not do it yourself, a consultant can do the job for you in a few hours, generally for around \$75 an hour. After that, maintenance is simple but crucial. You'll need to replace worn-out tapes every few months, and you should clean drive heads with tape cleaner according to the manufacturer's instructions. To protect yourself against disasters such as flood and fire, don't store backups at the office. Designate someone to take the latest tape home every night.

FASTER, TOUGHER. Another worthwhile alternative for businesses where people don't share a lot of files are the so-called removable backup media. There are two types of removable drives. Zip drives, for example, use disks that resemble floppies but are a bit thicker and cost around \$20 for 100 megabytes of storage space; others, such as SyQuest Technology Inc.'s SparQ, use

removable cartridges that contain little hard drives. Removable drives can either sit alongside your computer or be installed internally. In fact, if you're planning to buy a new PC, you may as well get one with a built-in Zip drive. It's included on some newer models from Apple, Dell, Gateway 2000, and Hewlett-Packard, as well as other manufacturers.

What's the advantage over tape? The cartridges and their removable drives are faster and more durable, although more expensive on a per-megabyte basis. Also, they're easier to scan quickly for the files you've backed up. Plus, you

all? Store your data off-site with one of the newer Internet-based backup services. For \$15 to \$30 a month, you automatically send your data by mail to online-backup companies such as @Backup Corp. in San Diego and iVa Corp. in Seattle. First, you get directions to download software from the Website and register with the service. Then, you set up the software so your computer automatically dials up the service and sends the data (typically at night). Simply pointing and clicking, you specify which files and folders you want backed up. The first upload could take hours or even a couple of nights, but afterward, only updated files are sent.

WARINESS. George W. Age, president of Precision Dental Laboratory Inc. in San Clara, Calif., turned to @Backup after a trouble recovering his accounting data from a tape backup system. The new system is more secure, he says. And it's just plain easy. "I don't have to worry about taking tapes home every night," he says. "Your system is easy; you'll get disks in overnight."

But these services, which have been around for only a year and a half, aren't for everybody. For one, they require a stable Internet link to avoid broken connections and delays. Then, too, people still are

about entrusting sensitive data to someone else—worrying about theft, confidentiality, and file loss. If you're asking the service about its own security procedures. They should have data redundancy, meaning your data is copied to more than one disk drive. For further assurance, ask the company for a client list, or seek advice on the one of Usenet's computer discussion groups, such as comp.sys.hardware.

No matter which way you do it, backing up, it's a bit of a pain. But paying for insurance. If you manage risks, do it with something that conceivably pay off—such as insuring your business.

By Anthony Paonita in New

Safety First

Here are some of the leading backup options for small businesses.

BACKUP SYSTEM	MANUFACTURER	CAPACITY	APPROXIMATE RETAIL PRICE
TAPE DRIVES			
IOMEGA DITTO MAX	Iomega www.iomega.com 801 778-1000	2 GB to 10 GB (compressed)	\$200 for drive \$20-\$35 per tape, depending on capacity
HP COLORADO	Hewlett-Packard www.hp.com/go/tape	5 GB (compressed)	\$230 internal version \$270 external version \$7 per tape
REMOVABLE DISK DRIVES			
IOMEGA ZIP PLUS	Iomega www.iomega.com 801 778-1000	100 MB	\$200 for drive \$20 per cartridge
SYQUEST SPARQ	SyQuest Technology www.syquest.com 510 226-4000	1 GB	\$200 for drive \$33 per cartridge
BACKUP SERVICES			
@BACKUP	www.atbackup.com 619 455-3500	Unlimited	\$30 monthly
ATRIEVA	www.atrieva.com 888 ATRIEVA	Unlimited	\$14.95 monthly

can use these drives to archive files and free up space on your hard drive.

There are many removable drives on the market, but one of the most widely used is Iomega's Zip Drive Plus, available at computer stores for about \$200. Each cartridge holds as much as 100 megabytes—enough for a big database and some graphics files. You simply install the accompanying software, connect the Zip drive to the parallel port, and you're ready.

If you're backing up a lot of data, 100 MB probably won't be enough. Consider buying SyQuest's SparQ drive, which costs around \$200 and whose 1-gigabyte cartridges go for around \$100 for a three-pack.

Rather not mess with hardware at

Plug it in, turn it on. Now adding network storage is a Snap!



Starting at just \$995, the Snap! Server™ from Meridian Data is everything you want in a storage server: comes preconfigured to recognize your network, so you really can just plug it in and turn it on — with no downtime for your existing servers. And with prices ranging from \$995 for the 4 GB server to 12 GB for \$1795, Snap! Server redefines network storage, offering the perfect combination of quick and easy installation at prices never-before-seen for a file server. In fact, Snap! Server is so hassle-free, it comes with an unconditional 30-day money-back guarantee. And now, you could win a Snap! Server just by visiting our web site at **www.snapserver.com/busw** or simply call **1-888-343-SNAP ext. 600.**



MERIDIAN
Network Storage Made Simple

OMP USA
THE COMPUTER SUPERSTORE
1-800-CompUSA







Chances are you didn't go into business to fulfill a lifelong of busywork.

From: Microsoft Office 97 Small Business Edition
Sent: Monday, 9:00 a.m.
To: Everyone who has to do everything
Subject: How to do it.

Office 97 Small Business Edition helps you save time on the work that needs to get done, so you can spend more time on the work you actually like to do. So, pound away on letters and documents knowing Office 97 Small Business Edition is following along, correcting your spelling, watching your grammar, and generally helping out when you need it. Pull up your budget and accounting numbers and analyze them in ways that make it easier for you to make informed decisions. Use the Microsoft Outlook™ integrated e-mail program to keep in touch with customers and vendors and stay on top of your schedule. And because Office Small Business Edition includes Microsoft Publisher 98, you can create your own professional-looking newsletters, brochures, business cards—even Web sites. In other words, Office 97 Small Business Edition is a suite of smart, easy productivity tools, linked together to help you do your best work and circumvent the busywork. To learn more about it, and to find out about the free* product enhancements and assistance you can get through Microsoft Office Update, visit

BY KEVIN KELLY

SURVIVING SUCCESSION

Handing the family business to the next generation can be tricky. The cold perspective of a consultant can help

Succession in a family business doesn't have to create a crisis, but far too often it does. I know a father who fired his daughter and sold the company, only to have the daughter sue him. I know of several elderly founders who simply can't cede control to their kids. I have accumulated more than enough evidence to understand that mixing business and family can be lethal.

Yet here I am, working every day at Emerald Packaging with my brother, Jim, my sister, Maura, and my father, Jim Sr. And Mom, Rosaleen, sits on the board. This could be a recipe for disaster. So far, happily, it hasn't been, despite my father's threats to "leave the business to the cat" when things don't go his way. A history of solid relations has spared us the deep-seated antagonisms that often immolate family businesses. Our shared sense of humor, laced with irony and self-deprecation, gets us through tense meetings. And a well-drawn division of labor—I handle operations; my brother, sales; and my sister, customer service—taps our strengths and prevents squabbling.

THE BIG QUESTION. Still, when my father lobbed the big question last year of how we wanted to organize ourselves as he moves toward retirement, no one knew how to proceed. It's true: Succession is one of the toughest questions for a family business. In our case, we were shifting from first to second generation just as our major market was undergoing big changes. Most of our plastic packaging is sold to the produce industry. But over the years, our clients have switched from packaging whole vegetables to slicing and dicing them so they're ready to eat. That has led to demands for snappier packaging—and thus to demands for investment in new machinery. So we have had to ask ourselves how much to spend on

new equipment—a printing press costs between \$2.5 million and \$4 million. And how would we organize ourselves?

We all had different answers. I favor a more aggressive path that would take us into new packaging, in areas such as snack food. I wanted a corporate structure in which power was shared, recognizing our roles as equal partners. My brother wanted us to focus more on our current markets, and given his seniority wanted to set the agenda. My sister cared less which markets to pursue but was very concerned about her position.

She didn't want to be overshadowed by her two brothers, and she wanted a bigger role in sales.

Needing guidance, we sought outside help early last year. Fortunately, because hundreds of thousands of family-owned businesses are going through similar trials, there's a ready pool of consultants. Our search ended with Judy Barber, a psychologist based in nearby Nap

Calif., and her partner Peter Sammond, an accountant out of Minneapolis. We figured they would give us the insight we needed to confront the emotional questions around succession while also providing some business acumen as we planned for the future. So far, at four meetings at a Radisson Hotel conference room, we've put together a five-year plan, as well as hashed through issues about how we communicate. One outcome: I've learned to control my temper when people make mistakes.

One year later, we have come a long way. We have decided what capital outlays we can afford and started to

focus on new markets. The process has helped the three of us define just how big the business should be. We have had our difficult moments, but we're all pretty excited about the future. We've agreed to run the business as partners, collaborating on major decisions. As my father reduces his stake, we will remain equal shareholders.

Of course, there's still plenty of conflict. My brother and I, for instance, still don't see eye-to-eye on exactly what kind of equipment to buy. But we know we can talk out our differences. And after all this work, I know none of us wants Koko the cat to get the business.

Kelly, a BUSINESS WEEK writer for nine years, is an officer at Emerald Packaging in Union City, Calif.



KEVIN KELLY
(SECOND FROM THE
RIGHT) AND KIN

"Deferring tax obligations with a variable annuity."

READY FOR A HOTEL THAT'S ALL BUSINESS?



BUSINESS SERVICES DATAPORTS MEETING FACILITIES BUSINESS CLASS IS STANDARD

**CALL 1-800-HOLIDAY
FOR RESERVATIONS.**

4TES	San Diego	DISTRICT OF COLUMBIA
	San Francisco	FLORIDA
A	CONNECTICUT	Orlando (2 locations); Panama City

542015

11105

Decatur

11015128

3156523

MASSACHUSETTS

MICHIGAN

MINNESOTA

Columbia

Clark

NORTH CAROLINA

References

電話: 12-00

TEXAS

VIRGINIA

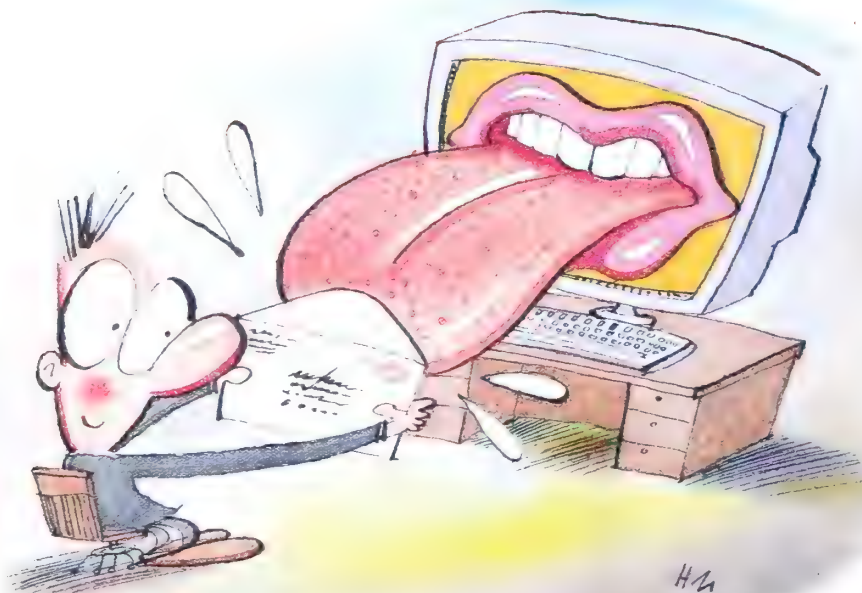
WASHINGTON

CANADA

NOVA SCOTIA

Montreal

COLOMBIA



FIRST-CLASS POSTAGE METERS

Electronic versions are coming your way, like it or not

Brace yourself for another technology upgrade. No, we don't mean Windows 98. We're talking about postage meters, and unless you go back to using stamps, you're stuck. By law, postage-meter companies have to retire the old mechanical meters and replace them with tamperproof electronic machines. At last count, this meant that about 776,000 meters must be changed by Mar. 31, 1999.

Chalk it up to a security-conscious government. Since postage meters are much like a local version of the U.S. mint—issuing stamps instead of dollars (the government wants to minimize opportunities for fraud. It's much harder to tamper with postage that comes on a microchip) or at least, that's the government's theory. So mechanical meters will go the way of manual typewriters.

The same concern about security means that you're required by law to rent your postage meter, not own it.

This gives the government the power to take the machine back if you misuse it. Only five companies in this heavily regulated business are allowed to rent them out. Of course, as you move to the new machines, your own business' security may improve, too. "Stamps have a tendency to walk off when you have employees," says Marilyn R. Taber, owner of Rhodes & Taber Ltd., a greeting-card startup in Petaluma, Calif.

The new machines do have some advantages. Most postage meters can be refilled through a phone hookup with the vendor, eliminating the need to dash to the post office when you run out of stamps or don't have the right combination for a bulky package. And if you can't stand the taste of envelope glue, an optional moistener starting at around \$5 a month will lick the problem—by sealing envelopes automatically.

Some new electronic meters offer

features unavailable on most mechanical meters, such as automatic cancellation tracking. It's no small matter, since postal service rejects mail that is stamped with an old date. Another handy option: an interface with a scale allowing you to weigh your letter package and automatically calculate the right postage.

Just because the law requires you to rent the machine doesn't mean everything else has to be rented, too. Other components of a mailing system can be bought outright, such as the scale and the base, which feeds and collects mail as it moves through the meter. That saves money in the long run if you use it hard enough. Just don't expect encouragement from your department. Some of them erroneously believe that the government requires you to rent everything. Others will rent you equipment, but jack up price maintenance so that leasing turns out to be much cheaper.

While it's not exactly a buyer's market, you do have some choices. We found seven small-business postage meters that can process up to 10 pieces of mail a month, and then identified the best models for three typical situations.

NO FRILLS. The first scenario is the office that wants a postage meter that processes fewer than 10 letters a month. Here, you're looking for a no-frills meter that will deliver a postmark cheaply. The Personal Post Office from Pitney Bowes Inc. stands out. With a first-year rental rate of \$85 per month and a built-in date change, this is the least costly model in the bunch, saving you about \$150 a year compared with other options. Moreover, the rate includes four telephone-based meter refills a year, a \$35 a month. This stand-alone meter has no built-in feed the mail automatically—you feed that by hand. While there is an optional scale available for \$5 a month, we would pass on that. Buy it from an office supply store instead of about \$70.

Among the drawbacks to the Personal Post Office are its high operating costs, particularly for ink. The average cost of printing indicia, or postmarks, is about 6¢ on top of the cost of the postage—almost twice the mark cost for Pitney Bowes's small-office product, PostPerfect. As a result, you may want to think w

have what it takes to make your

business into whatever you want

accomplish more

We can help you in ways you

thought of. From accounting

to lines of credit to corporate

American Express is here for you.

do more



Small Business
Services

or visit www.americanexpress.com

American Express employs licensed CPAs. American Express Company is a publicly owned company and is not a licensed CPA firm.

Get Online and get In Touch!

Business Week Online's Small Business Center on America Online is a place where small-business owners and entrepreneurs can find hard-to-get news and information important to their needs. There's plenty to explore—and to do:

ATTEND

specially scheduled online conferences featuring experienced entrepreneurs who can answer your questions.

COMMUNICATE

on the message boards. Exchange ideas with colleagues and find out what works.

CONNECT

easily to World Wide Web sites for small business flagged by BW as best bets.

DOWNLOAD

transcripts of past online conferences about small business and other subjects.

INTERACT

with Business Week editors.

BE IMAGINATIVE

Use the Small Business Center in the way that works best for you and your business.

From the Business Week Online main screen, click the BW Plus! button, then select BW Online's Small Business Center from the list of BW Plus! choices.

BusinessWeek ONLINE



For a free trial diskette including 50 free hours on AOL, call 1-800-641-4848 and mention Business Week.

ENTERPRISE

Buyer's Guide

about using those nice-looking but ink-loving messages that the meter includes for printing alongside the indicia.

The equation works out differently in our second scenario, an office that sends more than 10 letters a day. We'll assume at this higher volume that there will be more packages of varying weights and sizes, with some being too bulky to be fed through the meter. The Ascom Smart Series meter takes the honors here. The \$29 monthly lease costs more up front, but it comes out cheaper when you take into account the cost of ink and labels. This meter also lets you track how the postage is being spent, with up to 25 charge-back accounts available, and it includes a catch tray that keeps metered mail in a neat stack.

The optional scale can be hooked up to the meter, but keep in mind that such automatic scales need to be updated whenever postal rates change, and the service call can easily take \$60 out of your pocket. With the proposed increase looming for the cost of a first-class mailing, you may want to negotiate the costs of any updates beforehand.

The Ascom meter also requires you to be diligent about ordering refills. Remember to mail in your check about a week before your meter runs out of money, or you'll have to shell out a \$30 fee for an emergency advance.

If you're no good at those kind of details, take a look at the Francotyp-Postalia or Neopost offerings instead. These vendors offer a direct-debit system that will transfer funds directly from your bank account on your say-so, at no extra charge. (Pitney Bowes offers a credit program that costs nothing extra if you pay everything off on time—a nice touch if your cash flow is tight.)

NO HANDS NEEDED. Our third scenario covers a company that sends a lot of packages that can't be run through a meter. If that's you, pay special attention to the Neopost SM22, which comes

with an optional label dispenser. A stack of 50 labels can be popped the well, a feature that eliminates the need to guide each one manually through the meter.

Keep in mind that these recommendations are made on the basis of year pricing only. Vendors often get up prices after the first year, though—so be sure to read the print before signing your name to a multiyear contract. In the case of Pitney Bowes and Neopost, pricing for the first year will vary according to how much postage is used.

How To Lick Postage Costs

A sampling of meters suitable for use in the small office

COMPANY	MODEL	MAX. DAILY VOLUME	MONTHLY RENTAL	REFILLS/PHONE
ASCOM	Smart Series	30	\$29.00	\$8.50
ASCOM	Model 120	60	\$36.00*	\$8.50
FRANCOTYP-POSTALIA	T-1000	100	\$31.50	\$7.75
NEOPOST	SM22	50-75	\$28.95	\$9.50
NEOPOST	SM26	50-75	\$32.95	\$9.50
PITNEY BOWES	Personal Post Office	10	\$19.75	\$5**
PITNEY BOWES	PostPerfect	500	\$32.95	\$9.50

*\$30/month without phone refill option **Four a year free

All of these options may become obsolete later this year, when Eps unveils its stamping solution. The company, only the fifth to be approved for handling meter systems in the U.S., has developed a device you can lease instead of lease that allows you to apply government-approved postage. It's expected to cost less than \$199; the actual postage and refills are extra. The devices could appear in the fourth quarter of this year. If you're looking for something other than your favorite gadget-crazy gear, one just might earn a stamp of approval.

By Ma-Yan Lee, editorial director, BuyersZone (www.buyerszone.com, Boston).

For more information on postage meters, call 1-800-641-4848 or visit the BW Plus! at www.businessweek.com

Is This What Your Customer Looks Like?

Symantec Helps You Focus On Your Customer.

As a small business owner, you know that keeping your customer in focus is critical to your success. That's why you need Symantec Small Business Software. Symantec has a line of products for small businesses like yours that will help you be more productive and stay well protected. And that means more time in front of your customer and less time in front of your computer. Which is exactly the way it should be.



CALL 1-800-835-6222 EXT. 9NA22 TO ORDER YOUR FREE 30-DAY TRIAL CD!

SYMANTEC

Ladies and gentlemen: Today, we honor small business in film. Filmmakers over the years have produced many movies that capture the ups and downs of small-business life. Yet no one has properly recognized such films as a genre. The time has come to change that. While few of these works are realistic enough to provide hard lessons in management, renting any of them on a Saturday night will provide you with a grain of truth, a bit of perspective, or at least some well-earned comic relief. Without further ado, we present the Enterprise Oscars. The envelopes, please.

THE COLOR OF MONEY...

Accounting tricks being one of Hollywood's strong suits, there are a number of nominees for **Most Devious Financing**. The winners are Gene Wilder and Zero Mostel, for their attempt to bilk investors by creating a money-losing Broadway flop in *The Producers* (1968). Ellen Burstyn takes **Most Creative Financing** for unloading *The Spitfire Grill* (1996) through an essay contest—with a \$100 entry fee.

LIFE OF A SALESMAN...

The young clerk in *The Deli* (1997) who knows the names and habits of the clientele (the kind of intimate attention only a small business can offer) earns **Best Customer Service**. His boss gets **Worst Vendor Relations** for paying bookies before suppliers. **Sleaziest Salesman** goes to Kurt Russell as Rudy Russo in *Used Cars* (1980), for attaching bumpers with bubblegum and other dirty tricks. The surly Gen-X video-store workers in *Clerks* (1994), who hint at how the mice play while the boss is away, take the prize for **Worst Employees**. *Glengarry Glen Ross* (1992) showcases **Best Sales Incentive** with a contest: Win, place, or get a pink slip.

DOWN TIME

The Enterprise Oscars

A GUIDE TO MOVIES WITH NUGGETS OF TRUTH ABOUT THE ENTREPRENEURIAL LIFE



SCENES FROM ABROAD...

A La Mode (1993) earns **Best Voodoo Economics**. In this charming French film, a tailor's apprentice hears that eating money will somehow make it double. As the youth gains fame for his wacky designs, his boss starts nibbling on francs,

too. From Japan, the delightful *Tampopo* (1986) is an excellent guide to spying on rivals as it traces a female restaurateur as she learns Zen and the art of noodles from a trucker. It's our pick for **Best Product Development**. In the colorful English film *My Beautiful*

Laundrette (1985), a Pakistani youth running a tuckshop with his Anglo boyfriend learns all about separating whites and darks, winning **Best Or**. *Race and Social Mobility*. *Exotica* (1994), the pre owner of an upscale nightclub must manage her bouncer's jealousy of a worker (his ex-lover) and her most loyal client, an inspector. It wins **Most Complex Customer Relation**

CHARACTER PARTS...

Whoopi Goldberg in a white male partner suit can be taken seriously in Wall Street in *The Ass* (1996), the **Best End Round Bias**. John Turturro as the title character in (1992) wins **Most Naïve Entrepreneur** for trying to an honest construction company and for trusting a petitor. *Repo Man* (198) takes the prize for **Least Harmful Violent Debt Collection**, with Emilio Estevez learning that blanks can be as effective as real bullets.

SWEAT AND TOIL...

For **Best Historical Biography**, *The Story of Alexander Graham Bell* (1939), with Don Ameche, edges out Spencer Tracy in *Edison* (1940). The **'60s Entrepreneur** is Virginia Beatty in *Shampoo* (1975), a hairdresser who opens her own salon to avoid paying the house percentage. Tom Cruise is our **Most Entertaining Megastar**, for starting a home-based whorehouse in *Risky Business* (1983) and in *Cocktail* (1988), and solo as a sports agent in *My Maguire* (1996).

The **Art Imitates Life** prize goes to *Living in Oblivion* (1995), a modern then-struggling young actor Tom DiCillo about a struggling young director trying to finish an independent movie. DiCillo finishes the film with credit for something most business owners can relate to. Presented by Edith in New York



After buying 32 megabytes of RAM, it's not exactly like you have megabucks to spare.

It's easy to spend more for a personal computer than you planned. But don't think that means you have to compensate by skimping on the furniture. This handsome cabinet by Sauder unfolds to reveal compartments and work surfaces to house the busiest home office. Like all of our furniture, it's



Computer \$599⁰⁰
or less

entry Collection. Washed pine finish. shelves. Roll-out carts attached to offer plenty of storage and filing. accommodates CPU tower. Model #2549. is also available in four other finishes.

made piece by exacting piece in Archbold, Ohio. Ready for you

to assemble. And priced the way things were before anyone had ever heard

of the Information Superhighway. Sauder furniture is available at retailers

everywhere. For a brochure and store locations, call us at 1-800-4 SAUDER. Or visit us at www.sauder.com/bw.

Good Furniture Made Possible.

Sauder Woodworking Co.



T-1 TOO EXPENSIVE?
ISDN TOO SLOW?

<http://www.direcpc.com>



A DIRECPC™ SATELLITE DISH IS JUST RIGHT.

THE T1 ALTERNATIVE.

If you're looking for fast and affordable Internet access for your business today, look to the sky – that's where our satellites are. Small businesses across the country are bypassing crowded computer networks and outmoded phone lines for satellite Turbo Internet™ service from DirecPC™ – the fastest Internet access available nationwide – to get access up to 3 times faster than ISDN.

BUILT FOR BUSINESS.

A DirecPC satellite dish gives your company advanced business capabilities too. DirecPC Multimedia lets you broadcast high-quality, real time video to multiple locations with ease. And DirecPC Package Delivery lets you send anything from software upgrades to graphics files to multiple locations in seconds. So get your company's Internet access off the ground and into the sky today. Send your inquiries to: direcpcbiz@direcpc.com

TURBO INTERNET



HUGHES
NETWORK SYSTEMS

© 1998. Hughes Network Systems, a Hughes Electronics Corporation company. DirecPC and Turbo Internet are trademarks of Hughes Network Systems, a Hughes Electronics Corporation company.

Available at



and other retail outlets

PARTY STORES ARE HAVING A BLAST

ie favors, Halloween getups—you name it, boomers buy it

ne Dixon's daughter,annah, is turning 6 this month, and she's having a A generation ago, that have meant a cake and a of musical chairs, but are no longer simple. Alannah's friends had kating party last winter. r had pony rides in her rd. So Alannah has to something special, too: a arty with pizza for 30 from kindergarten and ut troop at a hotel near ons' Stroudsburg (Pa.) 'All the birthdays are a l,'" says her mother. ol and pizza aren't the word, either. Dixon's for Barbie-embalates and party began a

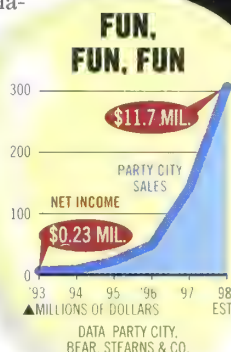
ago and al- as includ- rips to dif- ranches of rite party 'arty City. ops Party low prices d selection.

e so much

says Dixon, a set of \$1.19 Birthday from Bar- kins and a package of urbie paddleballs out of her n already out of control."

BOOM. She is not the only one. parents with fewer kids, longer hours, and a hefty dose of guilt have spawned party ma- ents are competing with other to have the most fabulous par-

Mary Meehan, a partner with olis-based trend consultant ture. The one-upmanship has el the growth of the latest of -killer to hit the retail indus- party-goods superstore. Chains Party City, Factory Card Outlet, r Warehouse now cater to your rty need. Trade magazine *Paper*



TIME OF HIS LIFE: Party City's Mandell now has 288 stores in 32 states

& Party Retailer figures these megastores have helped boost the market 18% in five years, to \$8.9 billion in 1997.

But it's not just kids who have gone party-mad. Fourth of July barbecues and 50th-birthday bashes have become de rigueur, while marketers have managed to turn once-marginal events like college basketball's Final Four championship into an excuse for Super Bowl-size adult celebration. Even Halloween, once strictly for kids, is finding an older audience. Retailers report that last October, while kids' costumes and candy sales were flat, strong sales of adult costumes and party decorations helped drive Halloween revenues to record levels. "Baby boomers want to stay young and feel young," says Gerald Celente, director of the Trends Research Institute in Rhinebeck, N. Y. "They want to keep having fun."

No one is celebrating more than Party City, the leading superstore, with 288 stores in 32 states. Last year, the Rock-

away (N.J.) company's earnings more than doubled, to \$7.7 million, on a revenue jump of 192% to \$141.7 million. Steve Kernkraut, an analyst with Bear, Stearns & Co., sees annual growth beating 40% over the next two years.

Indeed, CEO Steven Mandell sees plenty of room for expansion. He opened his first store in 1986, after tiring of his job wholesaling school supplies and party goods. "This is a big country, and party goods is a very understored market," he says. He hopes to reach 1,000 stores in the next few years.

PINATAS AND PAPER. Party City's formula for success has been simple. Like Toys 'R' Us Inc. or Wal-Mart Stores Inc. before it, Party City aims to be the all-in-one-store discounter. Displays and flyers advertising 50% off baby-shower goods and greeting cards draw shoppers in. Once inside, they find some 20,000 products lining the shelves at the average Party City, compared with 1,000 at a typical mom-and-pop card stores. At its store in West Paterson, N. J., an array of \$10 lobster piñatas and baseballs floats from the ceiling. Half of one aisle is lined with 145 patterns of wrapping paper, all 50% off.

Despite the low prices, the superstore model has weaknesses. "It's devoid of service. Devoid," says John L. Barry, vice-president for franchise development at Party Land, a franchiser in Plymouth Meeting, Pa. To compete, Barry, who once worked briefly for Party City, emphasizes salesmanship. Better service means higher prices, and Party Land also makes lucrative referrals for party-related services it doesn't offer, such as chair and table rentals.

But Mandell isn't standing still. His stores have grown up to 12,000 sq. ft., and the first aisle is now devoted to promoting the current season's goods: Super Bowl themes in January, graduations in April and May. At the back of the store is a year-round Halloween section, a reminder to return come October, when Party City does 25% of its business. Even Mandell—a reserved man who's normally not much for parties himself—dresses up. Last Halloween, he was a king in red velvet and a cape. He didn't win the office contest, but so far, he's throwing one hot party.

By Nanette Byrnes
in West Paterson, N. J.



CONSUMERS

READY TO SHOP UNTIL THEY DROP

Central Europe's rising middle class is on a buying binge

Philosophy professor Nina Gladziuk thinks carefully before shelling out her hard-earned zlotys for Poland's dazzling array of consumer goods. But spend she certainly does. Although she earns just \$550 a month from two academic jobs, Gladziuk, 41, enjoys making purchases: They are changing her lifestyle after years of deprivation under communism. In the past year, she has furnished a new apartment in a popular neighborhood near Warsaw's Kabaty Forest, splurged on foreign-made beauty products, and spent a weekend in Paris before attending a seminar financed by her university. "None of this was available before," she says.

Meet Central Europe's fast-rising consumer class. From white-collar workers like Gladziuk to factory workers in Bu-

dapest to hip young professionals in Prague, incomes are rising and confidence surging as a result of four years of economic growth. In the region's leading economies—the Czech Republic, Hungary, and Poland—the new class of buyers is growing not only in numbers but also in sophistication. Although they earn only a fraction of the wages of their counterparts in Western Europe, half of all Czechs consider themselves middle class, according to a recent poll. In Hungary, ad agency Young & Rubicam Inc. labels 11% of the country as "aspirers," with dreams of the good life and buying habits to match. Nearly one-third of all Czechs, Hungarians, and Poles—some 17 million people—are under 30 years old, eager to snap up everything from the latest fashions to compact disks.

These rising wants and needs offer big opportunities to companies from Polish food group Agros Holding to Citicorp. Whether they are selling beauty aids or leisure activities, companies are

delivering the idea that their products can improve—or transform—the lives of Central Europeans. That's an alluring message in a region that spent much of the past 50 years cloaked in communist drabness or, more recently, facing harsh realities of the transition to capitalism. Although cash is still king, companies and banks are teaching Central Europeans how to expand their horizons by chasing power through consumer spending. With annual inflation dropping from triple digits to under 15%, credit is fueling increases in the sale of big-ticket items such as appliances and cars. Indeed, car sales in Poland raced up by 30% last year alone.

TUMBLING TABOOS. In such a free-market environment, marketers are spending big to capture—and hold—the attention of consumers. "It used to be as simple as putting your product out there and putting up a few billboards," says K. Sheppard, president of Coca-Cola

JOYRIDE

These winners of a Fanta promotional drawing got a chauffeur spin through Budapest in a Cadillac

IS IT POSSIBLE TO BE THIS PASSIONATE
ABOUT A DOCUMENT SYSTEM?



© Minolta Corporation. Viper is a registered trademark of Dodge and Chrysler Corporation. Lamborghini is a registered trademark of Automobili Lamborghini S.p.A.

Digital Document Delivery System

Model Di620

Digital Copier



Lift the hood. It is there you'll understand one's appreciation for the remarkable Minolta Di620. Designed specifically to allow

you to control your copying and printing in-house with unmatched productivity and powerful

document finishing capability. ● At its heart, an advanced digital image processing technology:

LIMOS (Laser Intensity Modular System), Minolta's exclusive process that uses a one-dot

intensity varying method to reproduce halftones with subtle precision. ● Yet perhaps what really

warrants your personal affection is the Di620's amazing ability to finish the job. It staples in three

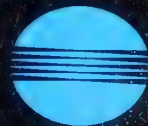
positions. Punches 2-hole or three-hole. Even folds in three ways: half-fold, crease-fold (with

saddle-stitch), or z-fold for oversized pages. ● Of course, you can access all these capabilities

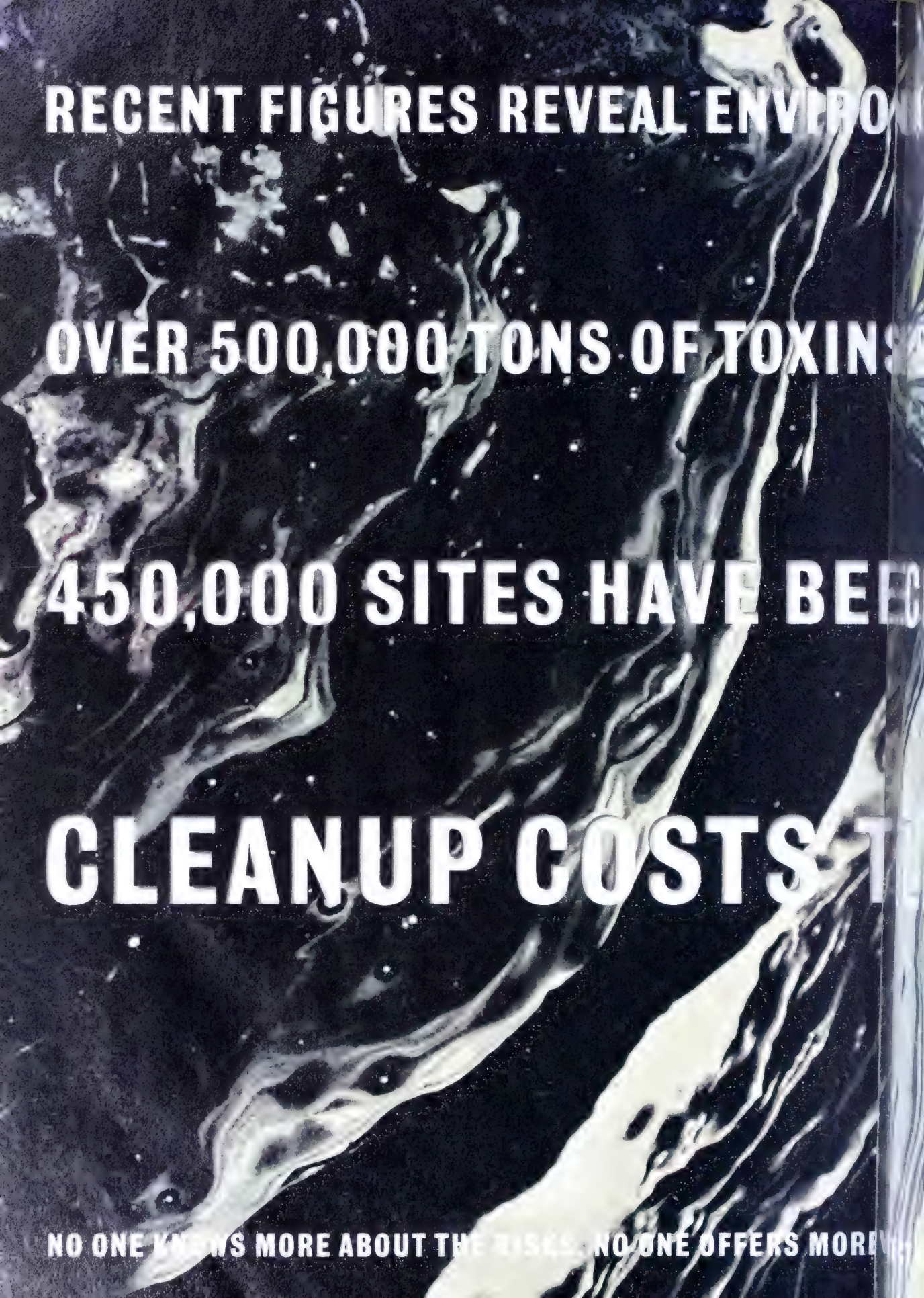
directly from your desktop using the Di620 as a network printer. Experience the

power of the Di620. See why it's nothing short of a high performance machine.

For more information call 1-800-964-6658. www.minoltad3.com/ad.



MINOLTA



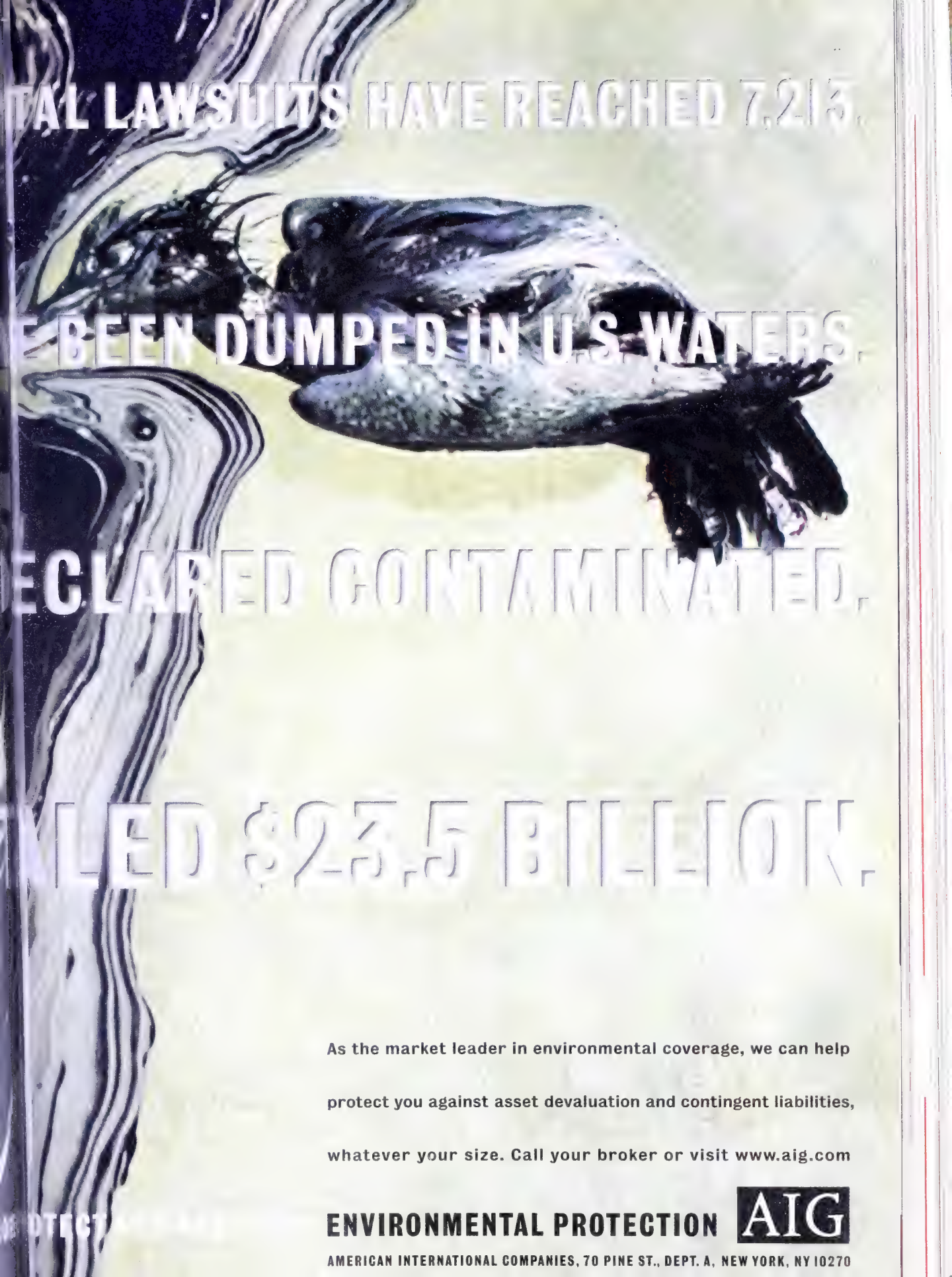
RECENT FIGURES REVEAL ENVIRON

OVER 500,000 TONS OF TOXINS

450,000 SITES HAVE BEEN

CLEANUP COSTS T

NO ONE KNOWS MORE ABOUT THE RISKS. NO ONE OFFERS MORE



TOTAL LAWSUITS HAVE REACHED 7,213.

BEEN DUMPED IN U.S. WATERS.

DECLARED CONTAMINATED.

VALUED \$23.5 BILLION.

As the market leader in environmental coverage, we can help
protect you against asset devaluation and contingent liabilities,
whatever your size. Call your broker or visit www.aig.com

PROTECT YOUR ASSETS

ENVIRONMENTAL PROTECTION

AIG

AMERICAN INTERNATIONAL COMPANIES, 70 PINE ST., DEPT. A, NEW YORK, NY 10270



CHECK IT OUT

A hypermarket in Warsaw has scores of lanes. Such giants are slaying the mom-and-pop shops

Central Europe. No longer. This year, companies will pour \$2.3 billion into advertising, twice as much as just three years ago (chart, page 112). Central Europe is awash in sweepstakes appealing to consumers' get-rich-quick fantasies as these companies test new products. Old taboos are falling, too. In communist days, sexual images were banned in the media. Now, in Prague, ads for an energy drink called Erektus depict a Pope-like eyeing a woman's bare legs. "For the man who wants what he can't have," says the copy.

The shopping spree is remaking Central Europe's distribution networks. Traditional mom-and-pop shops are disappearing as hypermarkets and malls spring up in major cities. In December, German retailing giant Metro opened Poland's largest shopping center, a \$56 million behemoth in Czeladz, in the industrial heartland. The company will plow \$555 million into Poland in the next five years. Similarly, a venture headed by Lehman Brothers Inc., the U.S. investment bank, is sinking \$150 million into 10 new malls in the Czech Republic, Hungary, and Poland.

Meanwhile, service companies such as DHL International are seeing their business take off—as they expand networks for distributing goods for foreign importers and local manufacturers alike.

"We are predicting growth of at least 25% a year in the region for the next five years," says Douglas West, commercial director for Central, Eastern, and Southern Europe.

In and around Warsaw, the surge in consumer spending is rising from the very ground: Young professionals are building thousands of new houses on the outskirts of town. Others are renovating their socialist-era apartments, adding sparkling new kitchens, built-in wooden cabinets, and expensive double-paned windows. Ikea Holdings, the Swedish furnishing company, is cashing in big on that trend, as is Potten & Pannen, a Czech marketer of high-end Western cookware and cutlery.

CASHLESS. But the region's hottest marketing opportunity these days is clearly financial services. Until now, many Czechs, Hungarians, and Poles

have been reluctant to open bank accounts. Some worry banks are too shaky. Others explore the abysmal service combat that image, Bank Handlowy, a big commercial lender in Poland, has launched a consumer division that will be offering everything from insurance to car loans. Some people for Citibank in Poland are calling on customer homes to pitch credit-card services. And in Hungary, credit cards are taking off. OTP Bank, the nation's largest savings

bank, plans to issue 1 million cards year-end. Katalin Szekeley, 30, a manager at L. M. Ericsson in Budapest, her new OTP debit card to buy groceries at Tesco PLC. "I feel a lot better because I don't have to carry around all that cash," she says.

Plastic is just the beginning, however. Next to come is an explosion in mutual funds, as governments begin to reform their overburdened state pension systems. Starting next year, for example, \$2 billion in Polish pension contributions will begin to go to private companies for the first time. Three dozen mutual and insurance companies are seeking licenses to set up pension funds. Some million workers will have to sign up with a private fund manager, starting Jan. 1, 1999. "Every company will be millions of dollars on commercial advertising," says Tomasz Orlik, di-

What The Merchants Are Boosting

PRODUCT/SERVICE	COMPANIES	THE SELL
FINANCIAL SERVICES	Citibank, Pioneer, AIG, Handlowy Bank	Buyers should use less cash and more plastic, keep their savings in banks, and invest for the future as safety nets crumble.
HEALTH, BEAUTY, FASHION	Unilever, Procter & Gamble, Toma, L'Oréal, Hugo Boss, Johnson & Johnson	The new consumer has the money and time to care about appearance, by buying everything from toothpaste to designer clothes.
LEISURE ACTIVITIES	Malev, Lot, Lufthansa, Bonton, Gemini Group	Make up for time lost when borders were closed under communism. See the world, have fun.
HOME	Ikea, Potten & Pannen	If you can't afford to build a new house, redo your old apartment.

DATA BUSINESS WEEK

Mannesmann: continued improvement in results, good earnings outlook

All Group sectors contribute to increase in earnings

Orders received and sales up significantly

Telecommunications continues strong expansion

annesmann got off to a good start in 1998 with strong growth and improved results. Orders received (+12%) and sales (+26%) were up significantly against the previous year. The result from ordinary activities was above that of a year ago thanks to the favorable development of the market and the successes achieved in the marketplace. The strictly value-oriented structural improvements also had a positive effect. All sectors contributed to the increase. Based on the present situation, Mannesmann also anticipates higher earnings

for the full year 1998. At approx. 128,900, the number of employees at the end of March was up by 8% due, above all, to the inclusion of Philips Car Systems (now VDO Car Communication) and to the continued expansion of Telecommunications.

**Order intake increased by 12%,
sales by 26%**

At \$ 6.011 billion, orders received by Mannesmann in the first quarter exceeded those of the same period last year by 12%. Above-average growth was achieved by Automotive and Telecommunications. Serial business in Engineering also reported marked growth.

Thanks to the efforts of all sectors, sales rose by 26% to \$ 5.415 billion with sizable increases across the board. The development in Engineering, Automotive and Telecommunications was especially good. Half of the growth in Germany was derived from Telecommunications. Abroad Mannesmann achieved a gain in sales of 21%.

Telecommunications continued its dynamic development with sales climbing 39% to \$ 1.083 billion. Mannesmann Mobilfunk posted a gain of 34%. At the end of March, the company had over 4 million subscribers.

Mannesmann Arcor achieved a highly successful start in telephone services for private customers. This segment accounted for about half the 67% growth in sales posted in the first quarter of the year. By March, Arcor was already handling more than 5 million minutes of call time per working day.

mannesmann

engineering

automotive

telecommunications

tubes & trading

Our investments in Italy and France were also very successful. In March the number of Omnitel subscribers passed the three million mark. At SFR, Cegetel's mobile telephone company, the number of subscribers was increased by about 350,000 in the first quarter of 1998 to over 2.5 million.

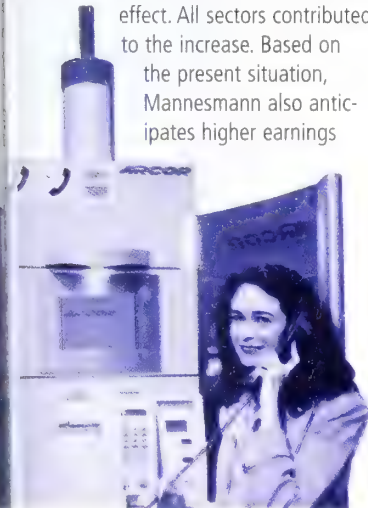
We will be happy to send you our Shareholders' Letter with the report on the first quarter 1998 and the Annual Report on the financial year 1997 on request.

Mannesmann –
working for your future

Mannesmann Aktiengesellschaft
D-40027 Düsseldorf, Germany
<http://www.mannesmann.com>

Mannesmann Corporation
450 Park Avenue, 24th Floor
New York, NY 10022-2669
Call 1-800-356-9235
Fax (212) 826-0074

mannesmann



mesmann Arcor will be installing these
ti-functional phone booths at airports
railroad stations in Germany this year

Group Performance		Jan.–March 1998	Jan.–March 1997	Change	
				abs.	%
Stores					
Opened	\$m	6,025	5,375	650	12
Internal sales	\$m	5,398	4,297	1,101	26
Domestic business	\$m	2,540	1,930	610	32
Foreign business	\$m	2,858	2,367	491	21
Employees (31.03.)		128,945	119,915	9,030	8

ated at the effective tax rate as per March 31, 1998 (EIA 1998) 0.5415.



FOCUS

NUMBER

SERIES

COMPANY

POSITION

NAME

"YOU'VE GOT THE WHOLE WORLD IN YOUR HAND BECA

NET PROFILES

MARK WIESENBERG

052

DIRECTOR, COMPUTER SERVICES

NETWARE
NOVELL DIRECTORY SERVICES

QUALCOMM



DETAILS

© Copyright 1998 Novell, Inc. All rights reserved. Novell and NetWare are registered trademarks and Novell Directory Services and No Limits are trademarks of Novell, Inc., in the United States and other countries. QUALCOMM is a registered service mark and registered trademark and Q is a trademark of QUALCOMM Incorporated. The stylized Q logo is a trademark of QUALCOMM Incorporated. Options depend on service available for your carrier. All other names are registered trademarks or trademarks of their respective owners.

GOT OUR WHOLE NETWORK ON MY DESKTOP."

Mark Wiesenberg knows all about bringing things down to size.

His company, QUALCOMM, is putting the power of advanced digital wireless communications into the palm of your hand with its compact CDMA digital Q[™] phone.

And his network, Novell[®], is putting the power of seamless networking right onto his users' desktops.

Novell NetWare[®] software supports over 4,000 users on a single server, and scales up easily as 200 workstations are added every month. And Novell Directory Services[™] technology allows his administrators to manage the entire network from a single site (including NT, Mac[®], Sun[®] and UNIX[®] platforms).

Shrinking the world is hard work, which is why a fast-paced, fast-growing company like QUALCOMM works only with the best. That's why they chose Novell.

World. Network. QUALCOMM. Novell. Hand in hand, desktop to desktop, a revolution in technology.
www.novell.com

Novell[®]

SOLUTIONS

of Pioneer Investment, Poland's new pension-fund department.

Central Europe's surging financial industry is contributing to the growth of the new consumer class. Just as in the West, the region's financial types are becoming role models for some workers and professionals lower down the consumer pyramid. With incomes of \$30,000 a year and often much more, they are indulging in purchases they once could only dream of. Take Dusan Tejkal, 25, owner of Private Investors, a Prague brokerage. With a yearly income exceeding \$80,000, Tejkal can afford to spend freely on exotic vacations, fancy restaurants, and fine clothes. This past spring, he took time off to ski in Austria and dive in the coral reefs off the coast of Belize. "When you want to escape, it's worth paying extra," he says. "It's worth making sure that everything will be perfect."

Although such high rollers still make up a minute percentage of the population in Central Europe, more companies are targeting them. Czech mobile-phone company EuroTel saw its sales double last year, to \$297 million, as it pushed its phones as symbols of worldliness for the country's young business class. Profits rose 89%, to \$111 million. Travel companies, local nightclubs, auto makers such as BMW, and design houses such as Versace have all begun to cater to Central Europe's new rich.

TEEN ANGELS. With family incomes rising, Central Europe's youth are also a big new target. Since young people tend to live at home until they get married, they have money to spend on food, fashion, and fun. Coca-Cola Co. has gone to great lengths to grab their attention. One scheme: the Fanta Fun Taxi in Hungary. Coke joins local radio stations around the country to sponsor a weekly promotional event. Contestants peel the label off a bottle of Fanta and send it in to the station with their name, address, and phone number. The prize for the drawing: a 12-hour, chauffeur-driven joyride along the streets of the contestant's hometown in an orange, tail-finned, vintage Cadillac, with "Fanta" splashed in bold letters across the hood. On a recent Saturday night, Adam Szorenyi, 20, and three pals whooped and waved as they toolled around Budapest in their Fun Taxi.

In two years, Coke's marketing budget will have



shifted from 90% advertising to a 50-50 split between advertising and promotions such as the fun taxi. "You've got to capture [consumers] with an experience," says Paul Garrison, managing director of Coca-Cola in Hungary. The strategy is paying off. Two years ago, Coke was neck and neck with Pepsi. Now, the company says, it sells 40% more soda than its leading rival.

Sportswear companies are also courting Central Europe's youth. Warsaw and Krakow are dotted with outlets of Nike Inc. and Reebok International Inc., selling shoes and other gym gear. In Hungary, mobile-phone companies such as Westel are chalking up sales among the under-20 crowd, as they offer service limited to domestic calls, along with

ENERGY DRINK

In Prague, Erektus is promoted as being "the man who wants what he can't have"

low rates in the evening and on weekends.

While young people and professionals represent an important market for many companies, manufacturers of household goods are lining up after a much broader spectrum. Procter & Gamble Co. and Unilever Group have poured millions of dollars into selling detergent, shampoo, and deodorant since they entered the region in the late 1990s. Their advertisements are partly geared to explain their products to consumers who previously couldn't afford them. "People have an extreme interest in our products work," says G.H. Kranendijk, chief executive in Poland.

In some cases, Central European consumers snap up pricey, foreign brands for special occasions but rely on cheaper products for everyday use. Despite efforts of P&G and Unilever to use Hypo as the No. 1 bleach in Hungary, it still commands a 65% market share because it costs one-fourth as much as rival brands. "In low-end products, price loyalty, not brand loyalty, motivates consumers," says Jeno Adics, head of Mareco, a Budapest market-research company.

Indeed, low-cost local brands are driving Western companies headachefor response, P&G, for example, slashed the cost of its new Bonux laundry detergent in Poland by selling it in plastic bags rather than boxes. "We said they didn't need expensive packaging," says Kranendijk. The marketing message trumpeted the savings: "Bonux cleans everything except your pocket." Now, the company's Bonux and Vizir are top sellers of the detergent market where P&G commands a 40% share. P&G's total sales in Poland are expected to reach \$500 million this year.

The fight between foreign and local brands is

What's Behind The Marketing Boom

PERSONAL CONSUMPTION IS RISING...



...DRIVING UP ADVERTISING SPENDING



* CONVERTED FROM INFLATION-ADJUSTED LOCAL CURRENCIES SINCE 1990

DATA: PLANECON, YOUNG & RUBICAM

Be recognized as a frequent flyer on not one,
but six airlines.

Makes you feel pretty special, doesn't it?



Travel the world smoothly on all six Star Alliance™ airlines —
United Airlines, Air Canada, Lufthansa, SAS, THAI and Varig.

Apply mileage points from qualified flights on any of the six
airlines toward your overall frequent flyer status.

Indulge yourself in any of our partners' lounges. More than
90 around the world are open to eligible First and Business
class travelers and to Star Alliance Gold members.

Redeem miles for reward travel on any of our six carriers,
giving you more than 600 destinations around the world to
choose from.

Enjoy Priority Check-In on all of our partners' flights. Regardless
of the airline you're flying, a priority counter awaits Star Alliance
Gold members.

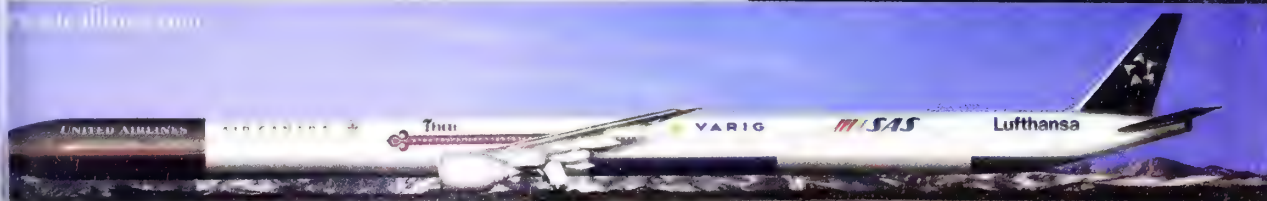
Be more confident when trying to fly a sold-out flight. Priority
Wait-List and Priority Standby* put Gold and Silver members
toward the top of the list on any Star Alliance flight.

STAR ALLIANCE



The airline network for Earth.

staralliance.com



*where allowed by law.

Marketing

only about price, however. As confidence grows, the appeal of exotic products from the West is fading. Local companies are using patriotic pitches to win back customers. In Hungary, Zwack Unicum Co., a distiller and wholesaler of spirits, airs TV spots that trace the 200-year history of Unicum, its big-selling after-dinner drink. In the Czech Republic, beverage producer Toma has knocked Pepsi into third place in the cola market by hawking its "Czech made" soft drinks as an antidote to the stresses of urban life. Says Zofia Gaber, president of food producer Agros, which makes popular Fortuna juices: "The inscription 'Polish product' brings us more consumers" than foreign rivals can attract.

As a result, Western companies are having to step up efforts to develop products—and marketing campaigns—that are geared to local needs and attitudes. That in turn is creating a demand for local talent to fill advertising and marketing positions, which can pay as much as \$180,000 a year. One of the new breed is 28-year-old Szymon Gutkowski, strategic director at Corporate Profiles DDB, a joint venture between a local company and DDB Need-

ham Worldwide Communications Group Inc., based in New York. Back in the early 1990s, Gutkowski was a political organizer for the forerunner to today's Freedom Union party. Now, however, he advises foreign companies to replace dubbed-over TV spots with commercials conceived with Polish tastes in mind. One ad he created, for example, features characters from novels of Henryk Sienkiewicz, the Polish author who won the Nobel prize for literature in 1905.

As more manufacturers, distributors, and marketers pile into Central Europe, consumers will be the winners. They'll benefit most from price competition, as companies jostle to tally up sales. Perhaps more important is that Central Europe's long period of painful economic reform is starting to pay off. The growing middle class promises to be not just the source of new business for companies. It also offers Central Europe the hope that some day its prosperity will match that of its neighbors to the West.

By David Woodruff in Warsaw, with James Drake in Prague, Christopher Condon in Budapest, and Peggy Simpson in Warsaw

TREATING THE CLIENT RIGHT IN BUDAPEST

It's a typically hectic afternoon at the office of McCann-Erickson Budapest. Janos Serenyi, director of the operation, calls out to his creative chief. "When does the Gillette campaign begin?" On the phone, the chief executive of Opel Hungary, a subsidiary of Opel Motors Corp., is waiting to speak. And mock-ups for a Hungarian Irwin Co. advertising campaign clutter Serenyi's desk, ready for his approval. **NO SHARK.** McCann-Erickson is Hungary's top ad agency. Since it set up shop a decade ago, it has led the pack in the market. Last year, the Budapest office booked more than 10 million in media time and space from clients—63% more than No. 2 Initiative Media International and 100% more than Zenith Media Services Inc., media agency for Bates Saatchi & Saatchi.

Serenyi's client list is a who's who of big business in Hungary: Coca-Cola, Johnson & Johnson, Unilever, plus local advertisers such as mobile telephone company



For 40 years, Frederic Goudy worked to create one of the world's most beautiful typefaces. Then, in a single day, 4 decades of work was destroyed by fire. So he started over again, recreating his typeface letter by letter.

The least we could do is keep it looking the way he wanted.



ISM. To stay ahead as competi-
rs more intense, Serenyi relies
n local talent. And he's spinning
l units to cater to the demands
for online selling as well as
irect, and health-related mar-
We have to offer a range of
g and communications services
y tailor it to the client," he says.
is fuzzy hair and thick mus-
renyi doesn't look like an east-

ern version of a Madison Avenue shark.
But he has come a long way. He was
editing a karate magazine and working
as a freelance public-relations specialist
when McCann-Erickson asked him to
open its Budapest office in 1988. Al-
though he had no advertising experi-
ence, he was a natural salesman. "We
started small. I did the media and pro-
duction. I was the manager and my own
secretary," Serenyi recalls.

TOP PITCHMAN

Serenyi's agency,
McCann-Erick-
son, is No. 1 in
billings—plug-
ging razors, cars,
ice cream...

From those
humble beginnings,
Serenyi built up to
a staff of 125, all
but four of whom
are Hungarian. He
taught them how
to bend over back-
wards for cus-
tomers and paid
them well once
they learned the

ropes. Nowadays, a 24-year-old account
executive can take home three times the
\$325 a month Serenyi earned when he
first started.

Looking ahead, Serenyi sees more
competition among agencies and even
higher demands from clients, foreign
and local alike. But Serenyi has always
enjoyed coping with the challenges of
the local scene. He remembers his first
lecture at Dresden's University of Eco-
nomics 30 years ago. "There are two
dangerous things for an economy: com-
puters and advertising," his Marxist
professor declared. The streetwise ad-
man is determined to keep ignoring
conventional wisdom and stay out in
front.

*By Christopher Condon
in Budapest*



Laser print

Laser fax

Laser copy

The All-in-One HP LaserJet 3100

Laser Printer
Laser Fax
Laser Copier
Scanner



*Estimated U.S. retail price. Actual price may vary.

ndy," the way it was intended — whether printed, faxed, copied, or scanned.

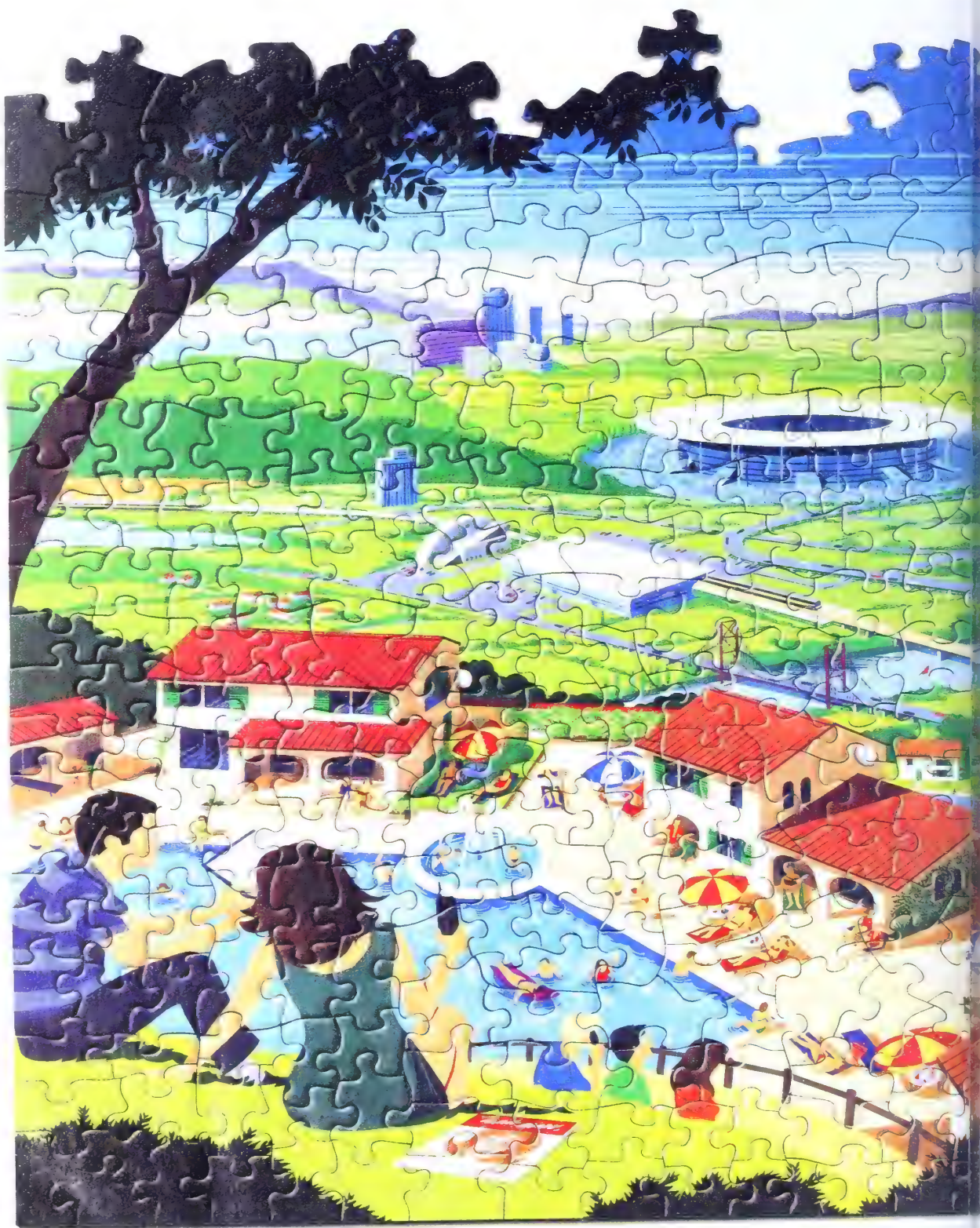
sharpness, clarity and precision of HP LaserJet technology is now available in an all-in-one

The HP LaserJet 3100 gives you professional, 600 dpi black and white documents at impressive

speed. It even performs multiple tasks simultaneously. All with the dependability you'd

ct from Hewlett-Packard. Priced around \$699.* For more information visit www.hpl3100.com

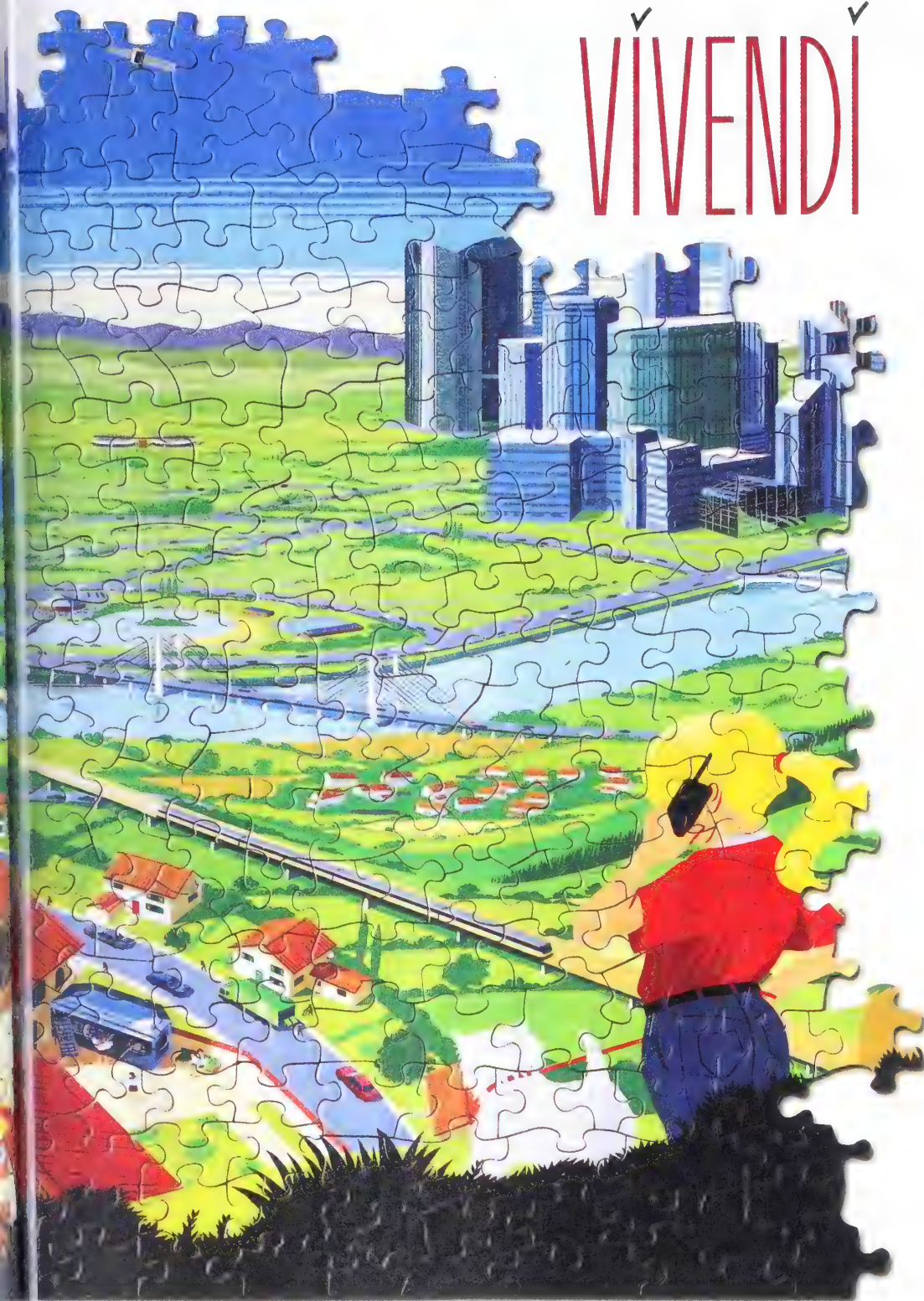
hp HEWLETT
PACKARD
Expanding Possibilities



VIVENDI. COMMITTED TO MEETING YOUR LIFE'S EVER-CHANGING NEEDS

Vivendi is the new name for Compagnie Générale des Eaux. Its role has grown from simply providing people with water to providing them with a better quality of life.

VIVENDI



...water, to providing energy, transport systems, waste management, construction and property, commun-
...ions and telecommunications. In other words, simply to improve your everyday life, today and tomorrow.



World leader in Environmental Services and one of the major European leaders in Communication and Construction, Vivendi employs 220,000 people in 90 countries. Its turnover is close to \$35bn and its net

income is expected to exceed \$1.1bn in 1998. Vivendi's market capitalisation is close to 30bn (mid 1998). Vivendi is part of the DJ Euro Stoxx 50.

In the United States too, Vivendi's activities are every day helping to improve the quality of life for millions of people and the company has annual sales here of \$2bn.

Air & Water Technologies, a Vivendi subsidiary, builds and operates water and waste-water facilities for 8 million people in 35 states, including Puerto Rico. Its Metcalf & Eddy subsidiary has designed and implemented the Boston Bay depollution program.

In energy, Vivendi is one of the main independent electricity suppliers in the USA. Its Sited Energies subsidiary operates 35 plants in several states, representing a global capacity of 4,000 MW. These include Boston Edison's plants and the 1,000 MW Independence plant which plays a part in the lighting of Manhattan.

In the waste management field, Montenay Onyx, a subsidiary of Vivendi, operates 5 major "waste-to-energy" plants in North America, including Dade County in Florida, the most important one in the US.



VIVENDI

COMMITTED TO MEETING YOUR LIFE'S EVER-CHANGING NEEDS.

www.vivendi.com

**IT ATTACHES ITSELF,
DRAINS ITS HOST OF
VALUABLE RESOURCES
AND MOVES ON.**

**BEWARE OF PESTS
DISGUISED AS BUSINESS
SOFTWARE COMPANIES.**

(ASSET DEPLETUS PARASITICUS)

By the time you realize you've been bitten by the wrong software company, it's too late. You're stuck with huge hardware expenditures. Never-ending maintenance costs. Painful upgrades. And a support team that's nowhere in sight. Fortunately, these things can be avoided. Lawson Software's fully integrated financials, human resources, procurement and supply chain process suites provide powerful performance without the need for powerful desktops. They utilize state-of-the-art web technology and innovations like our Self-Evident Applications™ to provide quick,



dorsal view



ventral view

enterprise-wide access to vital information while reducing training and network maintenance costs. Plus, the open architecture of our systems enables you to migrate future databases, user interfaces, network or hardware platforms, without reinvesting in software. Lawson Software has helped customers migrate from mainframe to client/server and the web. We're not about to disappear when technology shifts again. So before you find yourself attached to the wrong software company, visit Lawson Software at www.lawson.com/guide or call 1-800-477-7555.

LEADING EDGE TECHNOLOGY WITHOUT THE ATTITUDE

LAWSON
Software™

DOING BUSINESS IN THE INTERNET AGE

OVERVIEW

The 'Click Here' Economy....122
Business explosion on the Net will have a ripple effect far beyond the digital world

You Ain't Seen Nothin' Yet...130
benefits to the economy of E-commerce boundless

BUSINESS AT NET SPEED

Going On, Link Up, Save Big....132
Partnerships on the Net can add up to popping savings

The New Supply Chain.....140
Lines are being blurred as the Net recasts supplier-manufacturer relationships

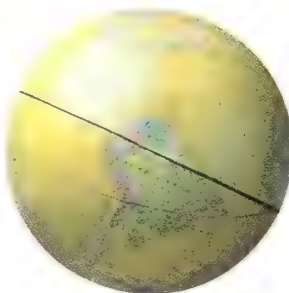
Instant Info Is Not Enough..144
Big strides in online customer support

The Birth of the Salesman.....146
The Web is an open frontier for middlemen. But that won't last long

How Safe Is the Net?.....148
Online businesses are building private networks to outwit the hackers

The Harris Poll[ONLINE](#)
Companies are testing the waters online—and where their efforts are headed

Is Ex: An Internet Stock? [ONLINE](#)
Investors looking for a Net play might find a good one here



THE DIGITAL BAZAAR

How the Winners Did It.....154
What makes a successful cybermerchant? Service and selection, of course—and the ability to adapt to a fast-changing medium

Where Are the Bargains?.....162
BUSINESS WEEK goes on an online shopping spree and finds that convenience is the greatest selling point

Caution Signs on the Road...166
How business, consumers, and techies are grappling with the Net's perils

Where's the E-Cash?.....[ONLINE](#)
It was supposed to be the currency of the Web, but little is circulating

Commentary.....[ONLINE](#)
America needs a uniform tax policy for stores, mail order, and online

Next: Smart Cards.....[ONLINE](#)
Can this alternative payment method make it from Manhattan to the Web?

SURVIVING THE INTERNET

Taming the Info Monster.....170
Nowadays, it's crucial for companies to harness the Net's geyser of information

BusinessWeek [ONLINE](#)

The online stories in this special report can be found at www.businessweek.com.

The

“CLICK
HERE”

Economy

Business on the Net is booming. And from retailers to brokers to suppliers, it is destroying old habits and creating opportunities

Mike Dobres knew something was up two years ago, when prospective buyers started walking into his car dealership with printouts of dealer invoice prices. Dobres, general sales manager of Royal Motor Sales in San Francisco, quickly realized that car-buying services on the Internet, such as Auto-By-Tel Corp., were giving customers a frightening new edge on his salespeople. Since then, his profits have sunk by as much as 25%. “People know what you pay for your car,” he sighs, “and they don’t let you make the big profits.”

Some 2,000 miles east, car dealer Jeff Peters is downright chipper about the Internet. The sales manager of Byers Chrysler Plymouth Dodge in Columbus, Ohio, hooked up four months ago with Autoweb.com, a Net car-buying service, and is now selling 12 additional cars per month on top of his usual 160—and paying just \$29 per Internet referral. His biggest surprise: A wired buyer in Kentucky, hundreds of miles away, struck a deal with him. Says Peters: “There’s no way I could’ve gotten that guy without the Internet.”

Big threats and fresh opportunities—that’s the Web. Think spiderweb: Is it a dandy way to catch dinner, or a deadly trap? The answer depends entirely on whether you’re the spider or the fly. The companies embracing the Web and weaving it to their own ends—whether they’re using it to sell products, streamline operations, or automate customer service—are thriving. For the rest, blithely buzzing along in real space,

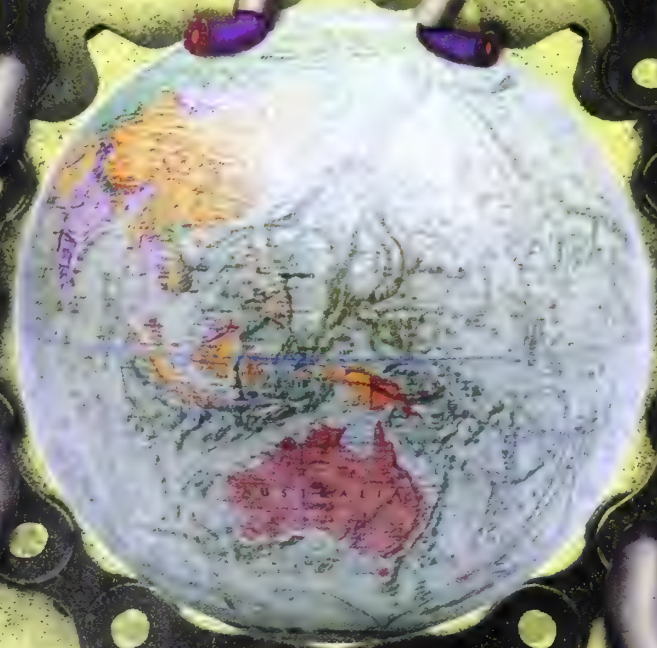
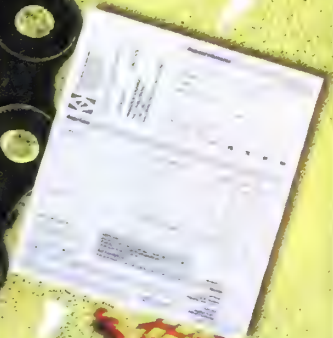
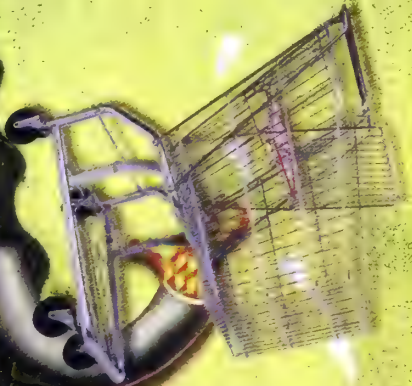
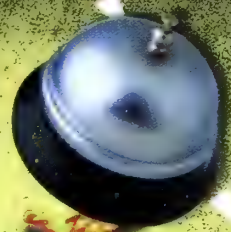
things are getting very sticky very fast. “This is fundamentally a new economy that will disassemble and rebuild the existing economy,” says analyst Clay Ryder of Zona Research Inc. in Redwood City, Calif.

Without a doubt, the Internet is ushering in an era of sweeping change that will leave business or industry untouched. In just a few years, the Net has gone from a playground for nerds into a vast communications and transaction center where some 90 million people swap information or do deals around the world. Imagine: It took radio more than 30 years to reach 1 million people, and television 15 years. Now we have a technology caught fire so fast.

SELLING EVERYWHERE. But then, few have taken this much sense. Like a central nervous system, the Information Highway courses around the globe, making all manner of commerce instantly possible. More than 400,000 companies have hung www.shingle.com atop their doorways with the notion that being anywhere on the Net means they can sell virtually everywhere. And sure enough, sales are picking up. Goods and services sold online to U.S. and European consumers this year will top \$5.1 billion—more than double the 1997 figure, according to Forrester Research Inc.

While that’s still small in the grand scheme of business, the numbers don’t come close to capturing the real wallop of the Net. Beyond the glitzy Web sites, well past the buzz about Webzines and chat rooms, businesses are adopting the Internet to get serious work done. By

START
HERE



the Internet to link directly to suppliers, factories, distributors, and customers, these companies are electrifying their usually time-consuming and tedious tasks.

It is nothing less than the collapse of time and space between partners. With the help of the Web, businesses are wringing time out of product design, speeding up the order and delivery of components, tracking sales by the hour, and getting instant feedback from customers—all the while keeping inventories to a bare minimum. It is reengineering all over again, only this time geared to getting every nanosecond of advantage out of the Internet. "If companies can learn to get the slop out of the system—and the Internet is absolutely crucial for this—prices come down," says Bryan Stolle, chief executive officer at Agile Software Corp. in San Jose, Calif.

SAVINGS AND SPEED. Indeed, behind this blinding speed shimmers the promise of incredible efficiency. Companies have barely begun to realize how potent the Net can be. But consider the vanguard already wired. At Boeing Co., there are 75 projects for using the Net to connect to contractors and customers—everything from zapping documents to the government to tracking the history of every plane Boeing sells. The expected savings will reach into the millions of dollars. And at Adaptec Inc. in Milpitas, Calif., the maker of computer storage products has sped up communications with its Taiwanese chip suppliers by way of links over the Net. The results have been marked: Adaptec has reduced its time from order to delivery by more than half, to just 55 days, and the company has saved more than \$1 million in costs.

Saving money is just the start. The ultimate prize is the creation of new wealth: As the Net tears down the walls of geography, companies are creating entirely new businesses and tapping markets they never could have reached before.

Network Associates in Santa Clara, Calif., for instance, doesn't market its antivirus software in many countries outside the U.S. because it's too expensive. But recently its first sale of a remote help-desk software product came from a bank in Spain, which downloaded it and ordered a seat license. "That's the marketing power you get online," says division manager Zach Nelson. "Instant sale. No cost."

"KITTY HAWK ERA." It's the promise of frictionless capitalism. And there are signs that it is gaining speed. U.S. businesses will exchange an estimated \$17 billion in goods and services this year over the Net, more than double the amount in 1997, according to Forrester. By 2002, that's expected to explode to \$327 billion. Combine that with cost savings to business and online consumer buying and the Internet could add an estimated \$10 billion to \$20 billion to gross domestic product in four years, BUSINESS WEEK estimates (page 130). Says Jeff Bezos, chief executive of Web bookseller Amazon.com: "This is the Kitty Hawk era of electronic commerce."

That's the upside. With the emergence of a new era also comes upheaval across nearly every industry, often with frightening results. The downside of squeezing inefficiencies out of business transactions, after all, is that it sometimes squeezes out entire businesses along the way. In coming years, thousands of employees could see their jobs turned topsy-turvy as human tasks such as selling airline tickets or tending to customer complaints over the phone, are taken over by the one-to-one, buyer-to-seller, nature of the Net.

One of the first to feel the pinch: the travel industry. When you can bone up on vacation destinations, compare flights, and purchase an airline ticket on the Net, what's left for a travel agent? Some travel sites offer an option to have an agent issue the ticket, but "customers

NET FACT

Business-to-business

E-commerce will account for **78%** of the total spent on cyber transactions this year, says Forrester Research

ONLINE SALES ARE SOARING



FINANCIAL SERVICES

1997: \$1.2 billion
2001: \$5 billion*



APPAREL AND FOOTWEAR

1997: \$92 million
2001: \$514 million*



PC HARDWARE AND SOFTWARE

1997: \$863 million
2001: \$3.8 billion*

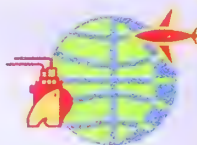
ENTERTAINMENT

1997: \$298 million
2001: \$2.7 billion*



TRAVEL

1997: \$654 million
2001: \$7.4 billion*



BOOKS AND MUSIC

1997: \$156 million
2001: \$1.1 billion*

* ESTIMATE

DATA: FORRESTER RESEARCH INC.

no added value" in that, says h Barton, general manager of Microsoft vel Services, which runs the Expedia vel Web site. Just ask Vanita Louie, sident of San Francisco-based South ific Express Travels, a \$25 million ny. "We've lost at least 10% to 15% of sales to the Internet over the past ," she laments.

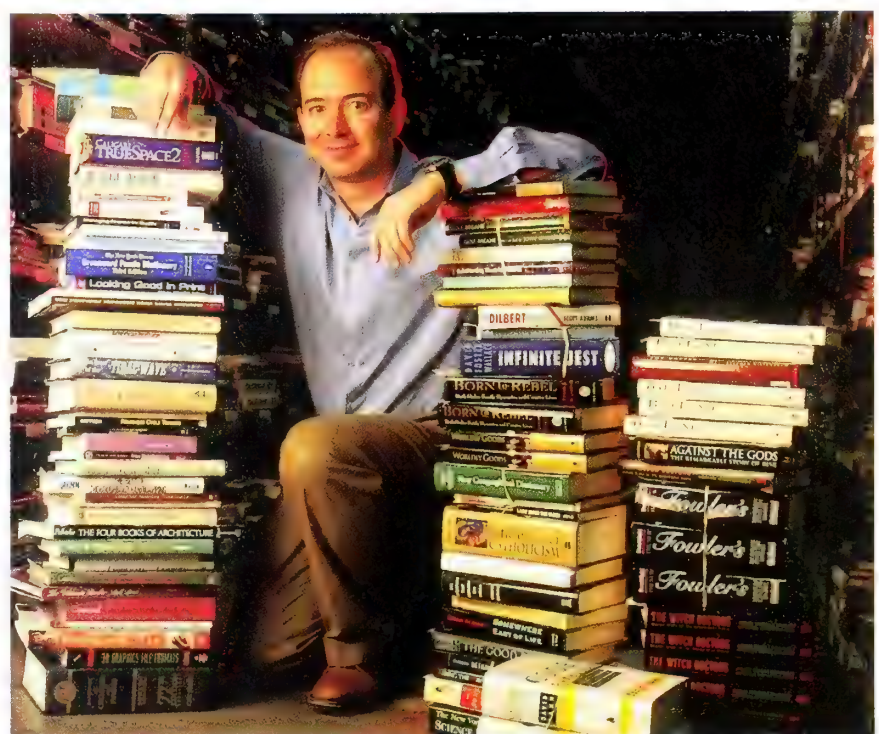
rom travel agents to stockbrokers to ilters, businesses are feeling the force he Net. The threat goes by the undy name "disintermediation"—the ess of cutting out middlemen. But tever you call it, it's already taking a bite out of companies that have been to adapt to the massive changes the has wrought. Online brokerages, for nple, are quickly gaining converts, more than 5 million accounts. Trade Group Inc. trumpets savings traditional brokers in TV ads and oards that de-

re: "Someday, yone will trade way." It also s a free book ightly titled

AMAZON'S BEZOS:
Sales may leap
170% this year,
to \$400 million

Your Broker. Cracks E*Trade CEO Chris- l. Cotsakos: "The brokerage branch net- will be a great place to have fast-food hises."

RING ROLES. Indeed, the Net is decon- ting the fundamental nature of business actions. As every link in the supply chain is l, the traditional roles of manufacturers, butors, and suppliers are blurring—and s will be the ultimate winners. Why? Be- on the Web, buyers can quickly compare icts and prices from a wide range of sup- faster and more easily than ever before—



putting them in a better bargaining position. They can even share information among themselves. "The balance of power shifts away from business and to the consumer," says Amazon.com's Bezos.

The same goes for corporate buyers. The Web makes it easier to deal with multiple suppliers, which is often too cumbersome and time-consuming to do offline. Wired corporations find themselves armed to play suppliers off one another and get lower prices or better service. General Electric Co. bought \$1 billion worth of supplies via the Net last year. That saved the company 20% on materials costs because its divisions were able to reach a wider base of suppliers to hammer out better deals. By 2000, GE expects to be buying \$5 billion over the Net.

PROFITABLE WEB SITES. The upshot: "It's a huge sea change for all businesses," says Tim Koogle, CEO of Internet portal Yahoo! Inc. Koogle should know: Yahoo! started as a commercial operation in 1995 with a simple, if humongous, list of Web sites to help people navigate the Web. But like the Web itself, Yahoo! is changing fast. The once amazing ability to search the entire World Wide Web became prosaic in a Net instant, so Yahoo!, at the tender age of two years, began reinventing itself as a place to trade stocks, make travel reservations, and conduct commerce. It's even profitable, valued by investors at an almost unthinkable \$5.5 billion—more than Apple, Circuit City, Dow Jones, or Maytag.

Yahoo! isn't the only Net pioneer taking wing. From stodgy industries such as utilities and insurance to fast-moving businesses such as computers and stock trading, companies

NET FACT

The **travel** industry will account for **35%** of all online sales by **2002**, up from 11% in 1998, according to a Datamonitor study. By then, book sales and software will each be 10%, insurance 9%, music 8%, clothes 7%, and hardware 5%

TICKET EVENT SALES

1997: **\$79 million**
2001: **\$2 billion***

BUSINESS-TO-BUSINESS SALES

1997: **\$8 billion**
2001: **\$183 billion***



are taking advantage of the Net to revamp their businesses—or build brand-new ones.

And they're no longer black holes for investment. By the close of 1997, the number of profitable Web sites—both for consumers and for interbusiness transactions—jumped to 46%, ending three years of stagnation at 30%, according to a survey by market researcher ActivMedia of Peterborough, N.H. And some 81% of the remainder expect to be profitable in a year or two (page 154). "We're being transformed into a 'click here' economy," says Renee Cantu, marketing promotions program manager for SportsSite.com, an online sports-equipment retailer.

No company has grasped that better than Dell Computer, a direct seller of personal computers. Its famed build-to-order model was initially based on telephone orders by customers, and on the weekly blizzards of purchase orders it faxed to parts suppliers. Even before the birth of the public Internet, Dell's supply chain was efficient, its inventories lean, and its profits lush.

CLONING. Then the Internet happened, and Dell began minting money. Today, instead of daily fax alerts to warehouses telling everyone what supplies are needed, Dell sends messages out every two hours over the Net. Dell's suppliers also get an inside view of the company's inventories and production plans, and they receive constant feedback on how well they are meeting shipping criteria. Now, its speed in customizing and delivering products is unmatched. Inventory on hand is down to eight days—vs. Compaq's 26—and revenue growth is about 55%.

The Internet, is helping Dell shatter conventional wisdom about how computers are best bought and sold. Compaq, HP, and IBM have tried to clone Dell's direct-sales model. And they've all snatched up similar electronic tools to streamline dealings with retailers. But the new supply-chain logic demands revolutionary tactics and a rethinking of every business process, which for now elude Dell's competitors, who still rely heavily on dealers. The PC prices you will find on IBM's direct-to-consumer Web pages aren't any lower than what's already available in retail stores, and they don't match Dell's.

For all the ruckus Net-age wizards like him may be causing, the result long-term likely will be an explosion of brand-new business. Even as some businesses see their prospects dim, digital middlemen—call them cybermediaries—are cropping up to fill opportunities spawned by E-commerce.

NEW WAVE. Experts see a big role for sites that bring together buyers and sellers and provide value by offering trusted advice, personal advice, or other benefits. This, says Zona's Ryan, is the start of the third wave of Internet commerce: not just saving money, not just selling existing products online, but generating new wealth. Says Paul Saffo, director of the Institute for the Future, a think tank in Menlo Park, Calif.:

"At the end of the day, you end up with more intermediaries, not fewer."

These new cybermediaries range from portals such as Yahoo! to Net startups that are creating unique markets on the Net—such as FastParts Inc., a site where electronic companies around the world buy and sell surplus parts. "The Internet has come along," says FastParts Chairman Gerry Haller, "where business would not have worked."

The business models these upstarts are employing are as diverse as they are inventive. Sites such as InsWeb Corp.—which serves as a virtual desk for restaurant and food-service operators—streamline

an inefficient buying process. Others are consumer magnets, drawing buyers with useful services and steering them to manufacturers and service providers, in return for a fee or cut of transactions. These services include sites such as Auto-By-Tel and Autoweb.com, and companies such as Get-Smart.com and E-Insurance and insurance services such as InsWeb Corp.

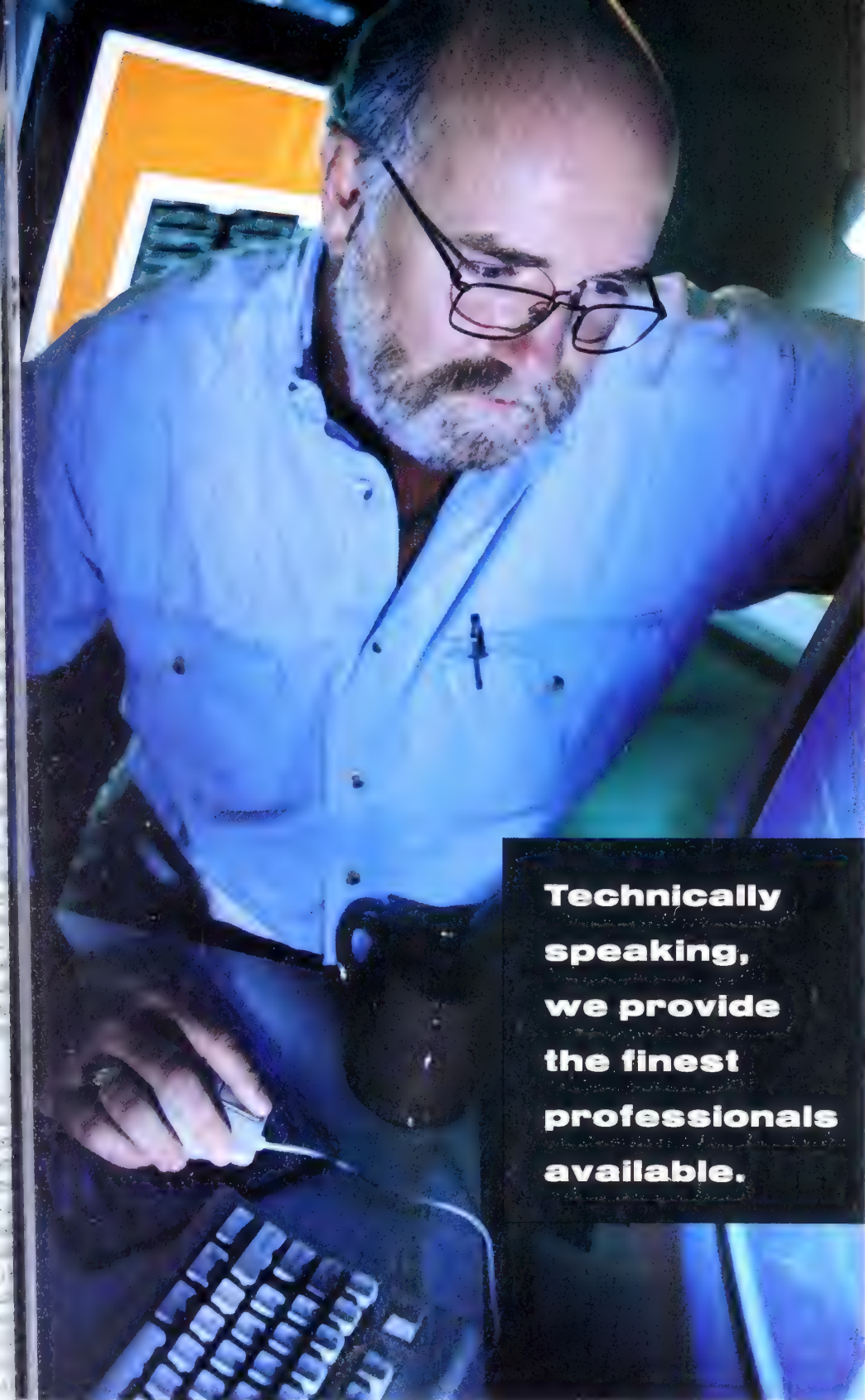
Some of the greatest opportunities lie in using the Net to simplify complex and costly transactions. Realtor.com, a site for home buyers, streamlining the harrowing task of purchasing a home. Stuart Wolff, CEO of the startup in Lake Village, Calif., figures there are up to a dozen middlemen involved in a typical home sale, from Realtors to title agents. Realtor.com, which is affiliated with the National Association



SPORTSSITE'S CANTU: Online athletic gear

NET FACT

Nearly **one-third** of online households made a Net **purchase** in the last six months, up 50% from a year ago, says Odyssey. Those who didn't buy online used the Net to help make a purchase decision



**Technically
speaking,
we provide
the finest
professionals
available.**

Kelly Temporary
Services™

Kelly Scientific
Resources™

Kelly Staff Leasing

The Wallace Law
Registry

Kelly Technical
Services™

Kelly & Associates
Union

Kelly Management
Services™

From engineers to accountants, analysts to graphic designers, our experts are the best in their fields. That is, if you want to get extremely technical. For information, call 1-888-GO-KELLY, or visit us at www.kellyservices.com

KELLY
SERVICES

Look what we do now.

tion of Realtors, directs shoppers to one of its realtors—no surprise. But it hopes to automate many other aspects of home sales, such as loans and title searches.

These digital middlemen aim to be the nexus of large numbers of buyers and sellers. The key dynamic: Once the cybermediary gathers a critical mass of buyers and sellers, more keep flocking there, because that's where the action is.

\$11 million in networking gear a day on the Net, and Dell is selling \$5 million a day in PCs.

Yet most existing businesses must wait a fine line on the Net. They risk upsetting partnerships with distributors and retailers. Conflict with an existing sales channel was the biggest impediment to selling online cited by respondents to a recent BUSINESS WEEK/Harris poll. That's hard to justify when Net commerce

HOW THE INTERNET CHANGES (ALMOST) EVERYTHING

Businesses are ahead of consumers in embracing the Internet. Even the slow-growing business markets are bigger than fast-growing consumer sectors.

	EARLY ADOPTION	LATER ADOPTION
BUSINESS PURCHASES	DURABLE GOODS Led by makers of computers and other high-tech hardware, more than 43% of durable-goods manufacturers will conduct business-to-business commerce over the Internet by 2001, with sales reaching \$99 billion, says Forrester Research. WHOLESALE Companies that wholesale office supplies, electronics goods, and scientific equipment are embracing the Net. Projected sales by 2001: \$89 billion.	SERVICES Doctors, lawyers, and accountants generally provide their services in person—one reason the sector will be slower to adopt E-commerce. Projected sales by 2001: \$19 billion. TRANSPORTATION Most transportation companies are already committed to the alternative known as electronic data interchange (EDI), so Forrester says Internet sales by 2001 might be only \$300 million.
CONSUMER PURCHASES	TRAVEL Flyers are bedeviled by browsing the Internet for bargain fares. Sales in 2001: \$7.4 billion. COMPUTER HARDWARE AND SOFTWARE It's an ideal sector for E-commerce. Buyers tend to be Net-savvy, and you don't need to sniff, squeeze, or try on the merchandise. Forrester projects 2001 sales of \$3.8 billion. BOOKS, MUSIC, AND ENTERTAINMENT This is a sector where online purchases may raise total spending, not just cannibalize sales from brick-and-mortar merchants. Forrester's 2001 forecast is \$3.8 billion.	HOUSING The Internet is a great place to browse for houses, apartments, and mortgage loans, but transactions are still being done the old-fashioned way. FOOD AND BEVERAGES Supermarkets won't be closing their doors anytime soon. Forrester pegs 2001 sales at \$460 million—less than for gifts, flowers, and greetings. SERVICES Telemedicine notwithstanding, health care is still a face-to-face business. Same goes for most other services—except computer updates and fixes, which are an online natural.

DATA: FORRESTER RESEARCH INC., BUSINESS WEEK

"Do you want to be where there're 800 Beanie Babies or 8,000 Beanie Babies?" asks Meg Whitman, CEO of eBay, a Web site that lets individuals auction off products to each other.

By continuing to gather buying power, digital go-betweens will soon be able to flex some muscle up the supply chain. Ask Payam Zamani, co-founder and executive vice-president of Autoweb.com. He believes his site offers such an economical way to reach car buyers that it will spur consolidation among dealers, and Autoweb will take on more of the customer relationship. "The business model is not complete until we control 100% of the buying process," says Zamani. What does the auto-sales business of the future look like? "Ultimately, there will be virtual dealerships. It will be more cost-effective to send cars to homes to test-drive than to have 300 cars sitting in a lot."

Naturally, traditional dealers and manufacturers don't relish the idea of these upstarts gaining all the clout, so they, too, are jockeying for position. Early starters such as Cisco are already selling

is still so small relative to their overall businesses, and returns far from certain.

And it explains why firms such as Goldman Sachs & Co. and Merrill Lynch & Co. are deliberating over how to go online, where discount brokers proliferate. "On the Internet, there's a shortage of information, but wisdom is a valuable commodity," says Randal Langdon, director of interactive-sales technologies for Merrill Lynch, which is cautiously moving its business—among its 14,000 financial consultants—onto the Net.

No wonder the Net is keeping a lot of executives and business owners up at night. I. Heller, executive vice-president at Capitol Records Inc., for instance, is worried that unauthorized Net-based music sites could soon take a big bite out of CD sales. "It's all happening faster than we thought," she frets. "How do you stop moving train?"

Make that a speeding bullet.

By Robert D. Hof in San Mateo, Calif.,
Gary McWilliams in Houston and Gabe Saveri in San Francisco

CERTIFIED PRE-OWNED LEXUS



NOW LEXUS IS MILES AND MILES
AHEAD OF THE COMPETITION.
THE 3-YEAR/100,000-MILE WARRANTY.*



What better way to distance ourselves from the rest of the field? Introducing the groundbreaking Lexus of Warranties: 3 years and 100,000 total vehicle miles on every Certified Pre-Owned Lexus. It's like no other pre-owned automobile warranty around. And every Certified Pre-Owned Lexus comes with 24-hour Roadside Assistance, passes a rigorous 128-point inspection and is available with incredibly affordable financing. So while it's true that we're miles ahead of the competition, for you, owning a Lexus is closer than you think. Test-drive a Certified Pre-Owned Lexus today. Only at your Lexus dealer.



**CERTIFIED
Pre-Owned**

ONLY AT YOUR LEXUS DEALER

www.lexuscpo.com

©1998 Lexus, a Division of Toyota Motor Sales, U.S.A., Inc. Lexus reminds you to wear seatbelts, secure children in rear seat and obey all speed laws. *Minimum 40,000 mile warranty coverage for Lexus CPO vehicles. See your CPO Lexus dealer for details on the limited warranty, available finance rates, and Roadside Assistance.

COMMENTARY

By Peter Coy

YOU AIN'T SEEN
NOTHIN' YETThe benefits to the economy of
E-commerce are boundlessE-COMMERCE
WILL PUMP UP
THE ECONOMYForecast for
E-commerce in 2002:**\$349 BILLION**Reduced cost from
implementing
E-commerce (as a
share of sales):**5% TO 10%**Net gain in
economic output*:**\$10 BILLION
TO \$20 BILLION***Assuming the economy is at full
employmentDATA: FORRESTER RESEARCH INC.,
BUSINESS WEEK

President Calvin Coolidge would have appreciated the frenzied buying, selling, browsing, bidding, dickering, and dealing that have broken out on the Internet in the twilight of the 20th century. It was Coolidge, after all, who said in 1925: "The chief business of the American people is business."

Now, 73 years after Silent Cal's speech, the Internet is stimulating business transactions by making them easier and cheaper to conduct than ever before. Indeed, it may be as a transaction machine—rather than as a typewriter, file drawer, or calculator—that the computer has found its highest calling.

Commerce on the Internet is still young, but its eventual impact on the economy will be huge. Compare it to the early days of the telephone in 1900. Internet commerce is not a product but a force—a powerful agent that will transform the way nearly every product and service is created and sold. Says Peter Clemente, vice-president at market researcher Cyber Dialogue Inc.: "The Net completely changes the rules of the game."

TRICKLE-DOWN BENEFITS. You can get a foretaste of how the Net will eventually pay off by examining its impact over the next few years. BUSINESS WEEK estimates that doing business on the Internet could pump up the nation's gross domestic product by \$10 billion to \$20 billion annually by 2002.

Start with Forrester Research Inc.'s projection that electronic commerce will reach about \$350 billion by 2002, from an estimated \$22 billion this year, including direct sales to consumers and transactions between businesses. Figure that doing business via the Net results in cost savings of about 5% to 10% of sales (a rough average based on the experience of a wide variety of early

adopters). Now assume that half of those savings are passed along to consumers in lower prices, and that for the typical product consumers increase their consumption by about the same proportion as prices fall. Do the math and you're in the range of a \$10 billion to \$20 billion increase in GDP.

And that's just the start. Over time, more companies will grasp the benefits of a lightning-fast, global network. Gains will be amplified as Net-savvy companies go a step further and adapt all their internal processes to take advantage of the Information Highway. Ernst & Young estimates that inventories eventually could be shaved by \$350 billion if companies used the Net to share such information as promotional plans, point-of-sale data, and sales forecasts. Redeploying that amount of capital at a 10% return would give the economy a \$35 billion kick.

The experience of already wired companies suggests that it's entirely possible for the production cost of a good or service to decline by 5% to 10% when it's created and sold with the help of the Internet. Manager at Xylan Corp., for example, used to spend an hour every Friday on a paper-strewn confirmation of the past week's design changes. Now they whip through it in 15 minutes using software that connects Xylan with its parts suppliers via the Net. "Before, it was zoo. Now, everybody is discussing the same thing at the same time," says Alan J. Puller, engineering services manager for the Calabasas (Calif.)-based switchmaker. And Xylan's suppliers can retool immediately rather than wait days or weeks for written confirmation of changes.

Even Luddites will enjoy trickle-down benefits from Net efficiencies. That's because nearly 80% of business on the Net today is conducted between companies rather than in sales to consumers—and when industry costs decline, companies are eventually forced to cut their prices to meet the competition.

Just as competition holds down prices in conventional commerce, it will restrain them on the Internet as well. Sure, some companies are charging top dollar today on Web sales. But that won't last once cybernauts learn to shop around—as they already have for airline tickets, stockbroking, cars, books, calendars, and compact disks.

And price isn't all that matters. For a nation of shoppers, there's real value in being able to shop at any hour, for almost anything, anywhere in the world. The long-term gain from doing business on the Net are, in a word, unimaginable. "It's like asking Christopher Columbus to extrapolate his initial thoughts to what we have today," says Paul Rudolph, president of electronic business for EDS Corp. in Dallas. Expect big things.

Coy is associate economics editor.

Now Microsoft is using Clarify to get a clear view of its customers.

Mark Perry, General Manager, Worldwide Support, Microsoft

Microsoft is the worldwide leader in software for personal computers. Mark Perry's mission is ensuring the long-term success of its customer relationships.

"Our goals are straightforward: find out what our customers need and make sure they're successful. That's our number one priority. Clarify simply has the best solution to meet our business objectives. They realized that this would be a long-term relationship, and worked really hard to make our project a success. Now we can see each customer individually. With Clarify we can tailor our interactions to each customer's needs, and be more proactive in helping them make decisions about the future. So they're much more loyal. Everyone wins."

Clarify's front office solutions automate processes in sales and marketing, customer service, field service and logistics, quality assurance and help desks.



CLARIFY

Sales and service solutions that deliver.™

1-888-CLARIFY

Microsoft and the Windows logo are either registered trademarks, or trademarks of Microsoft

EXTRANETS

LOG ON, LINK UP, SAVE BIG

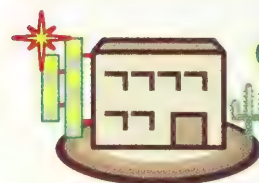
Companies are using Net tech to forge new partnerships and pile up eye-popping savings

Chris Barnes knew she had a problem. As head of procurement for sprawling Los Angeles County, she oversees an organization that bought \$650 million in goods and services last year using paper forms—and had no unified purchasing system. Buyers responsible for stocking the county's offices, hospitals, and jails tap into more than 25,000 suppliers. "We buy everything from chicken to condoms," Barnes says. The process was so chaotic that one office might order pencils, not knowing that thousands sat unused in a county warehouse. The launch of Web-based buying sites by some suppliers only raised the potential for pell-mell purchasing. "We couldn't just turn people loose to place orders over the Internet," she says.

Barnes bet on a high-tech solution. In tandem with the county's overhaul of its mainframe-based finance system, she constructed a \$2 million Internet-based procurement program using software from Walnut Creek (Calif.) startup Commerce One Inc. Now, buyers with browser-equipped desktop PCs can surf a countywide network and comparison shop among approved suppliers linked in over the Net.

Routine purchases are O.K.'d using rules built into the software, while special items get routed to managers for their approval. Orders and payments are all electronic. The comparison-shopping alone could save the county up to 5% on prices—adding up to tens of millions of dollars a year. And better inventory management will let the county reap a \$38 million windfall over the next five years from closing its central warehouse. "We're seeing tremendous savings," Barnes crows.

BIG BUCKS. She's not alone. Although it lacks the visibility of online shopping by consumers, business-to-business commerce over the Internet will account for 78% of the dollar value of cybertransactions this year, says Forrester Research Inc. Organizations like L. A. County are jumping on the bandwagon for an obvious reason: Using the Net to communicate with customers, distributors, and suppliers can save big bucks compared with doing it over the phone or via expensive proprietary data networks. Busi-



RETAIL STORE



DISTRIBUTORS

Cool Sportz sells its CoolWear products through 2,500 independent sporting goods stores around the country. Distributors who supply these shops use Cool Sportz's extranet to check on their commissions and read up on new merchandise marketing programs.



MANUFACTURING

For years, Cool Sportz has placed orders with contract manufacturer Electronic Data Interchange, or EDI, a software standard that is neither cheap nor flexible. Now, Cool Sportz saves money by moving some of these orders over the Internet.



PURCHASING

Cool Sportz used to order shoes, ski gear, and camping goods by phone and fax. Now Sportz saves time and money by sending orders electronically over the Internet. Some suppliers let Cool Sportz enter their private catalogs to place orders.



LIQUIDATION

When products don't sell, Cool Sportz auctions them through an online brokerage. The company posts inflated prices for the goods and a minimum bid. Potential buyers enter bids, and Cool Sportz ships the goods to the winning bidder.



NET FACT

Businesses will exchange an estimated \$17 billion in goods and services this year over the Net. By **2002**, that's expected to top **\$327 billion**, says Forrester Research Inc.

HOW A MYTHICAL MERCHANT USES THREE AVENUES OF THE NET FOR E-COMMERCE

COOL SPORTZ sits at the center of a web of partners, all connected over the Internet using open software standards. Cool Sportz has a private company intranet to communicate with branch stores and employees in remote offices. A secure extranet links Cool Sportz to its contract manufacturers, suppliers, independent retailers, distributors, and partners such as its law firm and ad agency.

INTRANET

RETAIL STORES

Cool Sportz collects sales data from its 1,200 retail stores around the country and fills hundreds of product reorders electronically. All stores are on the Cool Sportz intranet, a secure link that traverses the Internet. Cool Sportz also "pushes" info on promotions and discounts to its stores.

EMPLOYEES Instead of phoning the Human Resources department, Cool Sportz staff refer to an electronic version of the employee handbook on the company intranet. And they use a Java-based application to change their investment and health-care options and calculate their retirement benefits. Expense reports filed via the intranet are paid within 48 hours.

www.coolsportz.com

EXTRANET

INTERNET



OFFICE SUPPLIES

To centralize purchasing of office supplies, Cool Sportz lets managers in retail stores requisition everything from diskettes to display racks via their PCs. The orders are sent over the extranet from Cool Sportz to suppliers, who deliver directly to the stores.



PRODUCT DESIGN

Cool Sportz enlists freelance designers to create CoolWear products. The designers exchange drawings with Cool Sportz over the extranet. Then Cool Sportz's staff and designers can mark them up while talking together live over the Net.



PARTNERS

To help efficiency, Cool Sportz requires its law firm, accounting firm, and ad agency to belong to the corporate extranet. This ensures privacy and security for E-mail and electronic files. Cool's marketers brainstorm over the Net with the ad agency.



BANKING

While awaiting standards for Net-based electronic banking, Cool Sportz sends invoices by secure E-mail, which reduces paperwork and speeds up payment. The CFO likes collecting bills faster, but is less eager to see accounts payable go electronic.



CONSUMERS

Cool Sportz's Web site is promoted in TV ads, and gets thousands of hits a day. From surveys on its site, Cool Sportz collects demographic data. And it advises registered surfers on sales and new products.



RETAIL STORE

nesses will exchange an estimated \$17 billion in goods and services this year over the Net, Forrester says. By 2002, that's expected to top \$327 billion. Analysts are divided over how much companies will save, but conservative estimates hover in the tens of billions.

E-commerce isn't new to many companies. Tens of thousands already are using an older technology called Electronic Data Interchange, or EDI, to exchange some \$250 billion worth of products this year, usually over expensive private networks. But EDI is notoriously pricey and complex to set up—effectively shutting out millions of smaller businesses. It's inflexible, too. EDI only transmits rigidly formatted electronic documents such as purchase orders and invoices. Internet E-commerce, on the other hand, lets businesses cheaply swap all kinds of data: sales contacts, product brochures—even engineering drawings. “It's like having an open phone line with your customers,” says Sandra K. Morris, the director of Internet marketing and E-commerce for Intel Corp., whose customers are PC companies.

The savviest companies already are enjoying huge advantages from online business relationships. Chipmaker National Semiconductor Corp. is saving its distributors \$20 million this year by steering them to order products online, while at the same time asking them to supply detailed sales projections through the Web site. That helps National better plan its manufacturing schedules.

Boeing Co. has booked \$100 million in spare-parts orders from airlines in the last year through a Web site that took just seven months to build. And networking giant Cisco Systems Inc.—the shining star of business E-commerce—books \$11 million in orders each day from resellers, or around \$4 billion a year, on its Web site. Cisco CEO John Chambers says the company saved \$363 million in technical support, marketing, and distribution costs last year by exploiting the Web (page 144). More than one-third of the savings came from hiring fewer people to assist customers.

The potential for Net-based business relationships goes well beyond automated transactions, though. Companies ranging from Mobil Corp. to NationsBank Corp. are embracing so-called extranets, or business networks that extend a company's internal network—known as an intranet—to key business partners over the Net. Extranets use open software standards to shave networking costs and open the door to innovative applications.

Prudential HealthCare figured that out. The managed-care plan has an extranet linking its internal systems to the corporate networks of large subscribers. That lets benefits managers at

companies enroll new employees themselves rather than sending paperwork or dialing Prudential's call center. It also allows people check their eligibility and claim status, or consult doctors at any hour of the day. The payoff is sweet for Prudential, too: The self-service extranet cuts hundreds of calls a day to the company's 800 number.

Extranets are about more than just saving



BARNES: “We buy everything from chicken to condoms”

money, though. They also can be a way to form more intimate business links among partners, allowing them to share business data, even collaborate on product design and development. Hewlett-Packard Co. and Procter & Gamble Co., for instance, have extranet links to their advertising agencies to swap marketing plans and speed the review of ad campaigns. And maker Robert Mondavi Corp., which buys satellite images from NASA to spot problems in its vineyards, aims to push those images out over an extranet to its independent growers this year. That would help growers avoid vineyard problems—and improve the grapes Mondavi buys. Extranets “can help you build better relationships,” says Steven R. Soderberg, Mondavi's senior vice-president.

VIRTUAL KEIRETSU. That's what moved Adaptec Inc. to spend \$1 million for an extranet. Adaptec, a supplier of computer-storage products, Adaptec doesn't make the chips it uses in its products. Adaptec saves money that way. But the company can't move as quickly, in some cases, as rivals to build their own chips. “In this business, you can't be too fast or forgotten,” says Dolores M. Soderberg, vice-president of procurement.

To speed up communications with Adaptec's Taiwanese chip suppliers, Marcial used software from startup CrossRoute Inc. (Redwood City, Calif.) to tie all the companies together in a kind of virtual *keiretsu*. Now, messages

NET FACT

Boeing has booked **\$100 million** in spare-parts orders from airlines in the last year through a Web site that took just seven months to build



The new Mita Digital Copier/Printer.
(PC is optional.)

As a stand-alone copier it's in a class by itself, making up to 99 copies from a single scan. And as a 600 dpi network printer, it lets you produce sorted, stapled, finished documents right from your desktop. So while the computer may be optional, the Ai3030 is anything but. For more information call 1-800-ABC-MITA or visit www.mita.com.



NET FACT

General Electric says that purchasing over the Internet will save \$500 million over the next three years

Adaptec flow in seconds from its headquarters to partners in Asia. More important, the two-way communiqués include not just parts orders but also engineering drawings and detailed manufacturing instructions.

Adaptec has reaped great benefits, reducing the time between the order and delivery of its chips from as long as 16 weeks to just 55 days—the same turnaround enjoyed by companies that make their own. The time for processing purchase orders fell from six days to minutes, and suppliers stopped having to manually re-enter faxed orders—eliminating the potential for disastrous errors. All told, Adaptec saved \$1 million in costs and trimmed \$9 million from its work-in-process pipeline. “This is the real thing, not some theory-land,” Marcial says.

It doesn't get much more real than the Trading Process Network created by General Electric Co. A giant electronic marketplace, TPN now includes a dozen large buyers, including Con Edison, and 2,000 suppliers. GE alone bought more than \$1 billion in goods and services through the network last year, says John Berry, a GE marketer. Over the next three years, the company figures it will save \$500 million by buying through its TPN extranet.

Not all companies will see such a fast payoff. For example, extranets won't instantly solve Boeing's massive production problems and billion-dollar write-downs. But behind the scenes, enterprising Boeing managers have launched 75 extranet projects they hope will eventually save the company millions of dollars.

The projects range from modest changes such as new ways to distribute airplane-service bulletins, all the way up to planned sharing of massive online databases tracking the history of every plane Boeing sells. Some innovations, such as sending required documents to the federal government over the Net, “were so obvious that we didn't even go through the normal cost-justification process,” says Graeber Jordan, Boeing's senior manager for electronic-commerce deployment. Developing Web programs is relatively low-risk, which encourages companies to try novel ideas. “The Web is an insidious process-reengineering tool,” says Jordan.

UNDERSTANDING NET-SPEAK

INTERNET The Net is a global mesh of computer networks sharing a common software standard called TCP/IP. Its backbones are high-speed fiber trunk-lines owned by telephone companies. National service providers such as UUNET aggregate data traffic and zip it over the backbones. They work with local service providers who connect to customers via PC modems or digital links.

INTRANET Many companies have built internal networks using the same software standards as the Internet. Companies use intranets to distribute information and speed data among offices. Intranet activities usually take place behind secure “firewalls” so that only authorized users have access. An intranet can span multiple business locations via the Internet.

EXTRANET When a company throws open its internal network—or intranet—to selected business partners, the intranet becomes an “extranet.” Suppliers, distributors, and other authorized users can now connect to the company's network over the Net or through virtual private networks. Once inside, they can view data the company makes available.

Tinkering with processes will get companies only so far, though. For friction-free E-commerce, companies will have to do a lot of sense-building on standards for everything from part numbers to security. The surprise is elusive that goal is today. The computer business is a case in point. After years of willy-nilly growth, every company uses different schemes to describe the features of its products—in unique formats for paperwork such as purchase orders. “We have to reengineer the way companies work to make it possible for them to go electronic,” says Fadi Chehadé, CEO of RosettaNet, a consortium striving to set common standards for computer products.

RosettaNet is defining a lingua franca for describing everything from the speed of a pro-

cess to the color of a mouse. “To get out of this Tower of Babel, we need a common language,” Chehadé says. For proof, he points no further than Ingram Micro, the distributor where he worked before RosettaNet. Ingram processes some 60 product returns a day—computers, printers, and other gear. Many come in because customers' salespeople can't figure out how to do what they want. It doesn't happen in businesses such as apparel that have set standards. For E-commerce to fly, many other industries will have to follow suit.

That's one reason analysts don't think Internet commerce will kill off the decade-old Electronic Data Interchange technol-

Heavily used by big manufacturers, EDI provides a secure means of coding and exchanging standardized business forms, usually over private data highways called Value-Added Networks. Many big EDI users aim to stick with EDI because of their sunk costs and the perception that EDI is more reliable than the Net.

In fact, EDI and the Net can be complementary. The value of EDI transactions today is 10 times larger than business-to-business e-commerce. That ratio is changing fast, though. Within five years, the two will be running neck-and-neck, at more than \$450 billion annually. Consultant Gartner Group says that of companies using EDI today, 80% plan to implement extranets within five years. One big re-

WHAT IS *the* LATEST WORD IN *Information Technology* LEADERSHIP?

modis
THE INFORMATION TECHNOLOGY LEADERS

Application development
IT consulting & staffing
SAP® implementation
PeopleSoft® implementation
Management consulting
Process re-engineering
Systems support
Help desk
Project outsourcing

Introducing *modis*, the global leader in information technology (IT) solutions. While you may not yet be familiar with *modis*, your business or your customers—even your competitors—may already rely on *modis* for world class information technology resources.

With offices and operations in more than a hundred cities throughout North America, Europe and Latin America, *modis* has the reach to deliver IT services in virtually any locale. *modis* also has the financial strength and resources to ensure that our clients succeed in meeting their information technology goals.

modis. Our name is new, but our commitment to being the global IT leader remains the same.

Call *modis* at 1-888-modis98 or visit our website at www.modisit.com

An enterprise of AccuStaff Incorporated

ASI
Listed
NYSE

Companies can now run their EDI transactions over an Internet-type network—allowing them to keep their current systems in place while enjoying the Net's lower cost. By 2003, more than 30% of EDI data is expected to traverse the Net.

The Net also is making EDI accessible to smaller companies previously shut out by its high startup fees. Analysts say it can cost \$50,000 to add a single trading partner to an EDI network, because every link requires complex software translators to convert data between the participants. Now, EDI providers such as GEIS, Harbinger, and Sterling Commerce are adding "WebEDI" services that convert purchase orders from big buyers into Web forms that smaller suppliers can get over the Net. GE's TradeWeb, for instance, costs companies less than \$1,000 a year to join—cheap enough that 3,000 small suppliers have signed up.

A Silicon Valley startup has an even better idea. EC Co., based in Palo Alto, Calif., has constructed an Internet service that converts EDI data into formats small companies can import directly into their PC-based business systems. The service is cheaper than traditional VANS but provides all the same types of security and reliability. "It's robust and easy to use," says Erica Rugullies, an analyst for Giga Information Group. EC also handles electronic payments—something many VANS don't. That was enough to persuade the Ace Hardware chain to sign up. On Jan. 1, Ace told its suppliers to go electronic or start paying a fee for every paper-based transaction. So far, 40 mom-and-pop suppliers have joined the network at a cost of just \$1,000 each.

EDI's eventual downfall could come from a different quarter, though. Internet standards committees are creating a variant of HTML, the language of Web pages, called eXtensible Markup Language, or XML. Unlike HTML, which defines how a page looks, XML signals what the data on the page stand for. That means when a browser sees "\$699.95" on a Web site, it knows that's a price. The result: Buyers can more easily compare products and services across multiple E-commerce sites. XML "tags" also turn Web pages into live documents, meaning companies can send each other Web-based purchase orders and invoices. "XML is like EDI for the rest of us," says Phillip Merrick, chief executive officer of software startup webMethods Inc.

IMPRESSIVE ROSTER. With or without XML, extranet-based purchasing systems are a hot area. After decades of focus on automated production planning, companies have squeezed the fat from their manufacturing material costs. But few have devoted equal attention to managing money spent on operating resources, such as office supplies, furniture, and janitorial services—which can add up to one-third of revenue.

That's an opportunity targeted by Netscape Communications Corp., as well as Commerce One and startup Ariba Technologies Inc. Ariba is

working with suppliers such as Boise Cascade Corp. to create online catalogs that corporate buyers—or employees on their intranet—can use to make purchases. Visa International, American Express, and Federal Express Corp. are joining to provide payment and logistics services. All Ariba says its software can reduce the processing cost of purchases from \$75 to \$25 or less, improving internal controls and speeding deliveries. What's more, by centralizing buying, Ariba says, companies can strike better volume deals with suppliers. Ariba already has signed up an impressive roster of customers, including Chevron, Cisco, and Bristol-Myers Squibb.

The most profound but intangible consequence of this sort of E-commerce could be

NET FACT

Networking giant Cisco Systems books \$11 million in orders per day from resellers, or around \$4 billion per year, on its Web site. The company figures that saved \$363 million in tech support, distribution, and marketing costs last year

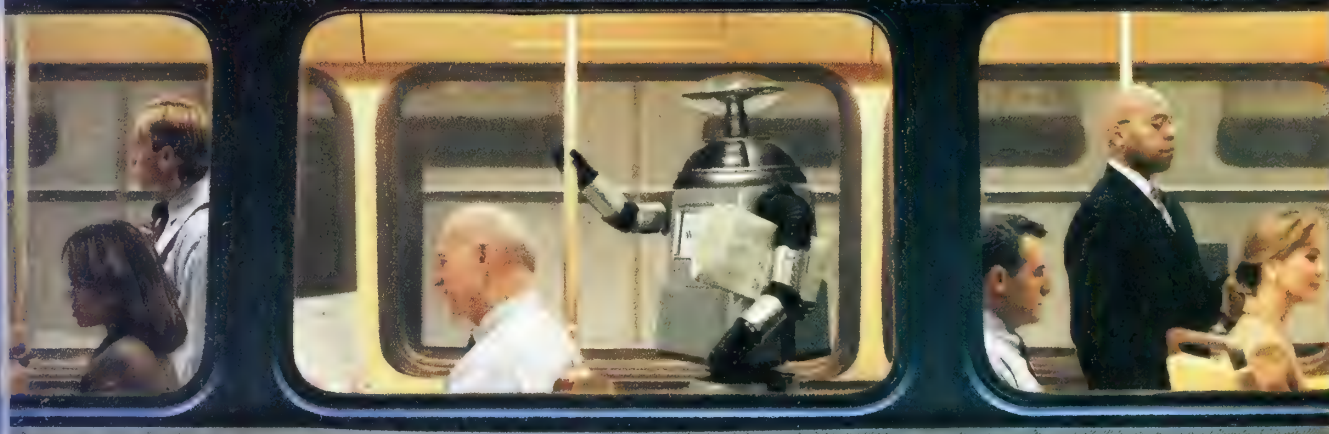


CHAMBERS OF CISCO: The star of E-commerce

effect on millions of clerks. True, automation will cost some people their jobs. But most commerce pioneers say their goal isn't to reduce the head count; it's to eliminate drudgery and improve productivity. "We didn't want to be paper pushers," says Adaptec's chief. "We wanted them to manage procurement and inventory."

That makes good strategic sense. Even though it may seem today, data-communication technology will ultimately be cheap, ubiquitous, and invisible. At this point, users will be focused on the most interesting parts of the work, which should boost their satisfaction. And it's the people on either end of the wire who will elevate some companies above the rest.

By Andy Reinhardt in San Jose



**Fairfax County is home to more than
2,000 leading information technology companies.**

In a world where technology changes overnight, there's one place where the conditions for change never change a bit. Where companies like Cable & Wireless, Oracle, Nextel, Concert and Network Solutions can count on access to three major airports. Where the schools are among the nation's best. Where the world's largest customer for information technology, the federal government, is right next door. Want to change the face of information technology? Then change your business address. Call 703-790-0600 or visit our Web site. And join us in Fairfax County.

FAIRFAX COUNTY, VIRGINIA. HOME OF THE 1998 WORLD CONGRESS ON INFORMATION TECHNOLOGY.

www.FairfaxCountyEDA.org

THE SUPPLY CHAIN

LEAPFROGGING A FEW LINKS

The Net is rewriting supplier-manufacturer contracts, blurring roles and empowering small fry

Wander the PC aisles at CompUSA and you'll discover something odd. Right next to the latest offerings from IBM, Compaq, and Hewlett-Packard stands a PC that just says "CompUSA." It wasn't simply purchased from some third-tier manufacturer and relabeled. Carefully aping Compaq and HP, CompUSA oversees parts procurement, assembly, warehousing, and shipping. You don't buy the PC on display. You configure your own at a kiosk in the store—or later, on the Net—and it gets built to order.

Once an ordinary retail outfit, CompUSA has broken

out of the box—changing the definition of electronics retailing. And it is in good company. J.C. Penney Co. designs and manages a brand of jeans called Arizona. These compete with Levi's and other big brands and bring in about \$10 million a year. Federal Express Corp., the shipping titan, doesn't just transport products for large corporate customers. It takes over whole chunks of their distribution—sometimes bumping old-style wholesalers out of the picture. Wal-Mart Stores Inc., the ultimate retail chain master, pushes its suppliers to take over everything from warehousing and shipping. To sell at Wal-Mart, SC Johnson Wax must study the giant's weekly sales figures, forecast demand for its shampoos and air-fresheners, and place them on shelves. It even manages rival brands in rotation for special treatment at Wal-Mart.

Topsy-turvy role reversals like these are happening up all across the America's retail, shipping, and manufacturing supply chains. And the Internet will hasten the changes. "Who is an materials supplier, a final-product manufacturer, distributor, a transportation vendor, or a retailer?" asks James C. Sheperd, vice-president of research at Advanced Manufacturing Research Inc. (AMR) in Boston. "The roles are getting very blurry."

Whichever way the big players choose to shake the supply chain, the goals are the same: speed, efficiency, and cost control. To hit those targets, the fleetest companies are relying on powerful software tools that speed up and

HOW MYTHICAL COOL SPORTZ GETS PRODUCTS TO MARKET



I Need Consistent
Information

And I Need It
Quick

But It Has To Be
Reliable



The SAS® Data Warehousing Solution

**Data Warehousing
Product of the Year**

**Maximum Return
on Investment**

**Information Integrity
and Quality**

**Integrate Diverse
Business Entities**

Web Enabled

Year 2000 Compliant

So much business information. Scattered in so many places throughout your company. Is it any wonder you find it difficult to get your hands on just the right facts to fuel effective decisions?

The SAS Data Warehousing Solution—from the leading decision support provider—delivers consistent, reliable, and timely information right when you need it. Information you can bank on. Information you can build on. Information you can explore from every angle and present in any format.

Find out why more than 3.5 million decision makers in every corner of the world rely on a single software for information delivery and discovery. Visit us at www.sas.com/dwb for more details and to request a free SAS Data Warehousing mouse pad.

**Turning Data
Into the Right
Information...
To Help You
Reach The
Right Decisions**

SAS Institute Inc.

The Business of Better Decision Making

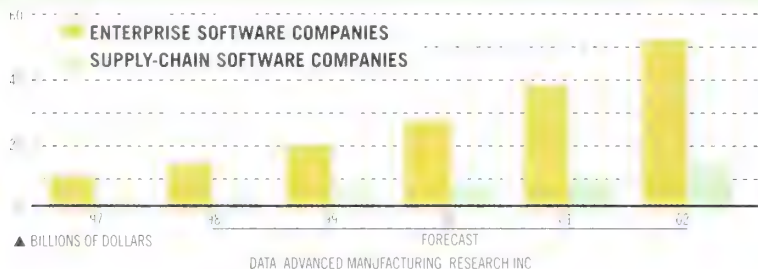
www.sas.com/dwb E-mail: bw@sas.com Phone 919.677.8200

SAS is a registered trademark of SAS Institute Inc. Copyright © 1998 by SAS Institute Inc.

tomate the flow of information. The market for such supply-chain programs, sold by i2 Technologies, Manugistics, IMI, and others, was just \$2 billion last year. But AMR expects the number to hit nearly \$14 billion in 2002.

These software programs sharpen a company's view of parts and products moving through the supply chain so it can better grasp what stocks are available and how demand may be shifting. Texas Instruments Inc. pioneered many such

EXPLOSION IN ENTERPRISE SOFTWARE: THESE TOOLS ARE BEING HONED FOR E-COMMERCE



programs and uses them to fulfill 60,000 orders a month for 45,000 different types of devices, says Chief Technology Officer Pallab Chatterjee. And it pulls that off with 95% on-time delivery.

In a fast-changing market, profits often hang on accurate predictions. A chip company, for example, may prematurely assign all its capacity to the first customer who walks in the door—agreeing to make a high-volume, low-profit chip when there are other customers who would pay a premium for different chips the company makes. “It’s capacity you could have charged more for because it’s in short supply,” says Sanjiv Sidhu, a former TI researcher who founded high-flier i2 Technologies Inc. of Irving, Tex.

ON THE FLY. The Internet didn’t trigger the rising velocity and unpredictability in the supply chain. Major retailers and manufacturers have been ordering goods electronically and sharing sales data with product and parts suppliers for decades. But using older techniques such as Electronic Data Interchange (EDI) the dialogue specifying orders and inventory is both limited and slow. For example, a car manufacturer tells a supplier that it needs 60 tires. It gets an answer, which may be yes, no, or some counterproposal. The manufacturer decides, and electronic forms are exchanged. The technology is not ideal for a fast build-to-order production model.

The Internet loosens up the conversation and opens it to more players. Compared to EDI, says Sidhu, “human collaboration over the Web is extremely rich.” The manufacturer can broadcast its ever-shifting requirements on a Web page and employ automated programs to interpret the responses from suppliers. This way, it can accurately assess what parts or materials are available across a spectrum of suppliers and at what price. In addition, the Internet makes it

easier to enlist new partners, scrutinize credentials, and pass work along to others.

Rollerblade Inc. can’t wait to move its contract manufacturers onto the Net. Today, it routinely labels and prices its cartons of inline skates for its large customers. And using EDI, electronically notifies them about what’s bringing and when. This is a burden the Eden Prairie (Minn.) skatemaker could live without. “It’s just pushing all that responsibility up the supply chain, making our subcontractors do it,” says Alan L. Sussman, vice-president for information technology. Sussman can’t force Rollerblade partners to join a costly EDI network—and he doesn’t have to. “The Internet will make that solution painless.”

HARD DECISIONS. Supply-chain tools also promise massive efficiency gains. Thomson Consumer Electronics—maker of RCA brand TV sets and VCRs—is customizing Web pages for retailers so they can feed Thomson demand data in real time. “We’ll do this across every product line,” says Monte Chamberlin, Thomson’s general manager for supply-chain strategy. He anticipates accumulated savings of \$25 million to \$50 million over the next 18 months.

Carried to its logical extreme, however, e-commerce that forecasts and mediates supply-chain demand could wreak havoc on traditional supply-chain relationships. FastParts Inc. already has electronics companies buy and sell large lots of excess inventory in online auctions, eliminating the need for traditional parts brokers. Even more of that, says Robert Hutchinson, top supply-chain maven at KPMG Consulting. Some retailers, he says, are now pitting shipping companies against each other in auction-style bidding. “They’ll describe how many loads they have going out, along with the weight, the volume, the destination,” he says. “Carriers are out there bidding in real time.”

As the supply-chain revolution rages, companies will be confronted with some nail-biting choices. Where in the supply chain do you really belong? If you move too abruptly into a new direction, what becomes of your partnerships? Making such decisions without the latest information will be tough. “Good manufacturers are trying to take time out of the chain,” says Donald Fickel, J.C. Penney’s vice-president in charge of corporate brands like Arizona Jeans. “They are set up with all the right electronics. Wal-Mart is also pushing its suppliers onto the Web.”

Soon, the very supply-chain metaphor may give way to a supply web. “Our role is to tell the customers wherever they go,” says Executive Vice-President and CFO James E. Skinner of CompUSA. One day, they may be individual consumers. The next, they could be purchasing agents for large corporations. They can’t be bothered with who is defined as the retailer or wholesaler. “Customers don’t want to think about channels, and neither do we,” Skinner says. In a time of upheaval, others conclude, they are bound to come to this same conclusion.

By Neil Gross in New York

NET FACT

Software lets Texas Instruments fill 60,000 orders a month for 45,000 kinds of devices, meeting delivery deadlines 95% of the time



What's more impressive?

The fact that Nasdaq
can handle over a billion
shares a day, or that
MCI helps them do it
without a trading floor?

Nasdaq joined the world's largest intranet.
MCI gave it to them. The free-enterprise system is
alive and well—and living within the world's largest intranet.
Nasdaq, the world's most advanced stock market, chose
MCI to design, build and maintain the backbone of their
business. A network that connects 120,000 computers around
the world. And delivers data to each Nasdaq broker within 50
milliseconds. Sometimes quite a bit of data—October 28,
1997 saw 1.37 billion shares traded, without interruption.
And as Nasdaq grows, so does their relationship with MCI.
We're now developing their next-generation network—
capable of handling four billion shares a day. To find
out how MCI can help manage your data needs, visit
www.mci.com/data.

data



CUSTOMER SERVICE

INSTANT INFO IS NOT ENOUGH

Future electronic support will
blend digital and human help

Since electronic commerce became all the rage two years ago, most of the buzz has been about selling products online. But for long-distance phone carrier MCI Communications Corp., the focus was elsewhere: on delivering customer service over the Internet. Now, MCI customers with PCs can monitor their accounts and pay their bills without so much as licking a stamp. By early fall, they'll be able to click an icon to get a service representative to talk with as they continue surfing the Web—assuming

sophisticated systems that will automate everything from order-taking to customer complaints, ActivMedia says. "Customers are just beginning for electronic support," says Michael J. Bez, MCI's vice-president for information technology.

The reach of the far-flung Internet into homes and businesses should have benefits for buyers and sellers alike. For buyers, it means no schlepping down to the mall to deal with clerks. At the same time, companies stand to gain huge cost savings of 30% or more, while improving service.

Consider Wells Fargo & Co., the San Francisco-based bank. Its 450,000 consumers with electronic accounts have instant access to information such as account balances and interest rates. As a result, these customers make calls to the bank just 1.4 times a month—less than other customers. Wells Fargo notes it can expand electronic accounts to 1 million in the next three years while keeping support costs flat.

Still, most of today's online help systems are short of the red-carpet treatment. Sure, they supply some tailored responses—such as account balances—but most just offer boatloads of information and expect customers to find their own answers. In a world where customers can jump to a rival with the click of a mouse, a "self-help" approach may not be enough. "Buyers are time-starved and want to get answers the way that's convenient," says Forrester analyst Maria LaTour Kadison. "Businesses that respond to that will lose."

CLICK HELP. Already, a new vision of electronic support is taking shape—an approach that blends digital and human help. For starters, auto-reply E-mail systems will answer some queries. Online mortgage broker America's Finance & Investments Inc. answers 65% of its questions—such as: "What are your rates?"—in seconds. AT&T, Nike Inc. and others are using a technology that determines the proper response to more complex problems by "interviewing" the customer through a series of pop-up online forms.

For inquiries that are beyond any computer's expertise, so-called tele-Web technologies are the answer. These software programs let stumped customers get help from a real person as they surf. 1-800-Flowers Inc. and others allow consumers to click on an icon to start an interactive chat with a service rep.

Laggards that wait much longer to ramp up their online support do so at their peril. Already, American Express Co. has grabbed a dozen big clients largely because of its premium online services, including features such as maps to help customers choose a hotel. Jeff Bezos, CEO of online bookseller Amazon.com, says, "You have to treat every customer as if they tell thousands of people about the service because they can—and they are." Fortunately, more may soon be saying how good the service is—not how awful.

By Peter Burrows in San Mateo, Calif.

AT YOUR (CYBER) SERVICE

*It's rare to find a Web site that
coddles customers, but improvements are on the way*



SMART SOFTWARE In the future, a smart software program will immediately parse customers' messages and automatically respond—either by firing back a canned answer or by "interviewing" the customer via E-mail to determine the proper response. If the problem is too tough, the software might then route the request to the proper employee.

BEST OF BOTH WORLDS Phone support will no longer be what frustrated customers turn to when they can't find an answer online. With a click of an icon, they'll be able to launch a real-time computer chat, a phone conversation, or even a full-fledged videoconference with a service rep.

COMPUTERIZED COMPLAINT BOX Electronic complaints will be logged into databases, just as calls to help desks are today. That means companies can mine E-mail to find recurring problems. What's more, if hundreds of customers demand a new feature, engineering can quickly go to work.



they're a good customer, that is. Since MCI's sophisticated system identifies the caller in seconds, big spenders get help within three rings, while penny-pinching carrier-swappers must wait until after priority customers get the first-class treatment.

Such digital hand-holding is still rare, but companies are catching on quickly to the advantages of cyber support. Today, businesses operating at least partially on the Net handle 13% of their customer inquiries electronically, according to Forrester Research Inc. Already, a third of all online businesses are building so-



TO SURVIVE OUT HERE, THERE ARE ANY
NUMBER OF THINGS YOU MIGHT FIND USEFUL.



Sunscreen.

Jackknife.

Compass.

Water.

COMPUWARE

What do you need most?

For application development, testing and management, four out of five of the world's
largest corporations rely on Compuware. People and software for business applications.



OWNERS.COM: Koch sells property on the Web

MIDDLEMEN

REBIRTH OF THE SALESMAN

Brokers are carving out fresh territory on the Web. But experts say attrition may be inevitable

NET FACT

59% of companies online say cutting out the middle-man is a benefit, says a BUSINESS WEEK/Harris Poll

For most of his career, Jerry Whitlock chased smokestacks, making cold calls at every factory he could find to sell seals and gaskets. Often, Whitlock, the son of a Georgia truck driver, would log grueling, 14-hour days on the road—away from his wife and daughter—and snatch lunch and dinner while barreling down the highway. “I had a beautiful house I never saw, and when I’d come home, it would be dark,” he recalls.

Today, Whitlock, 44, is still selling seals and gaskets, including hard-to-find industrial O-rings. But he has joined the cybergeneration, doing some 40% of his \$1 million business over the Internet, mostly from his home—and often while watching daytime television on his office computer. “I’m now a Space Age broker,” he drawls. “I’m sitting here in a pair of golf shorts, taking sales calls. I’m the envy of almost everyone I know in the business.”

Whitlock is among America’s small but growing army of cybermediaries—thousands of middlemen who, by choice or necessity, are carving out fresh territory on the Web. With its po-

tential to match buyers and sellers regardless of geography, time zones, or language differences, the Web is reinventing the role of the traditional broker, forcing changes on the most tech-wary.

DISPLACEMENT. It’s a death—and rebirth—for the salesman. No one knows exactly how many middleman jobs have been wiped out or created by the electronic marketplace, but how many have yet to be affected. Experts are now studying the impact the Net on employment, though some already predict the Web will, at least in the short term, eliminate

more middlemen jobs than it will create.

The theory: The Net allows buyers and sellers instant, easy, and direct contact, diminishing the need for, say, travel agents, insurance brokers, and real estate agents. “In the E-commerce world, we’re going to see displacement spades begin to happen very soon,” predicts Michael Smith, a financial services analyst at Mercer Management Consulting Inc. Mr. Smith predicts that the Net will only accelerate economic and technological trends which have since 1995, led to a 20% fall in the number of insurance agents.

That doesn’t mean middlemen will vanish from the Net. Indeed, go-betweens will be needed to help people gather and decipher the vast quantity of information that’s piled up on hundreds of thousands of Web sites. V. Hanson, an assistant professor at Stanford University’s business school who is conducting a study of the Net’s impact on jobs, figures 100,000 cybermediaries may already have cropped up. “Opportunities for new middlemen will be everywhere information is the product,” Hanson says.

“SLOW SWEEP OF CHANGE.” Japanese site Aucnet, for example, has a Web site for auctioning used cars to wholesalers—and the service is a hit: Aucnet inspectors, like cyber consumer advocates, scour the Net and other sources to provide buyers with statistics on cars sold—in addition to physically examining each car and assigning them quality ratings.

The message: Ignore the Web at your peril. Whether it’s travel agents being squeezed out by Web sites such as Travelocity and Expedia, new market-making opportunities popping up at sites such as FastParts.com—which links buyers and sellers of surplus electronic parts—changes are afoot. Says Paul Saffo, director of the Menlo Park (Calif.) Institute for the

a tech think tank: "The Net is starting a sweep of change through the workplace, lding the order of things, creating whole middlemen, forcing changes on others, and ag some behind."

r some, Net commerce already has taken a Just ask Laura Kleiman, one of 800 sales- e laid off when Egghead Software, citing ompetition from computer superstores and e rivals, closed all 156 of its brick-and- r stores, changed its name to egghead.com and became a Net-only dealer in March. vere one of the first groups of workers to gitized right out of work," says Kleiman. as returned to school, while some co-work- ok sales jobs elsewhere—not a problem in d economy, she says, but potentially diffi- a turbulent times.

far, the middlemen affected by the Net **JUST SAYING NO:** een book dealers and *McLoughlin* agents. Both are *prefers to see her* targets: They sell *customers* odities that don't

o be tried on, tested, tasted, or touched. hanks to the Net's ability to let sellers oute goods more cheaply—and allow cons to comparison shop—bargains can be The result: Some \$800 million in plane will be sold over the Web this year, a that could climb to \$8.9 billion in 2002, ts market researcher Jupiter Communi- . Online book sales could grow from \$216 to \$2.2 billion in the same period.

el agent Phil Davidoff, 57, is feeling the Over the past few years, Davidoff, the and co-founder of Belair/Empress Travel vie, Md., has seen airline commissions rom 62% of his revenue to 30%. Now, off is starting to explore ways the Inter- lld reverse his fortunes—perhaps through site featuring specialty vacation cruises. mmerce is a two-by-four hitting smaller over the head, getting our attention, icking us do things differently," he says.

UNITY KNOWLEDGE. Not everyone, , is embracing the Net. Judy McLough- ner of Reading in the Park, a children's ore in suburban Detroit, says she knows t may be cutting into the book busi- ut "I don't want to buy or sell a book I ouch." She and co-workers read most of ks they stock and pride themselves on ividualized attention they give to each er.

insurance agent Tom McDonald, whose Pointe (Mich.) business has been in the or three generations, Net-driven change to predict and difficult, at times, to He says he doesn't know "how to turn ernet on." His business just went on- May—for E-mail messages only. McDon- no plans to become a cyberbroker, and o, prefers face-to-face contact with ers: "There never will be a substitute handshake or the knowledge of a



community and the people who live there."

Maybe so, but the waves of Net-spurred changes have only begun to roll through the workplace. Experts say the middlemen next in line to feel the squeeze will be sports-equipment salesmen and car dealers, as cyberguides pop up to help consumers make sense of the gaggles of athletic gear and the range of cars.

THE RUBBER OR THE ROAD. At this pace, many middlemen won't have a choice but to go digital. As more people go online, and a generation familiar with the Net grows up, the number of online consumers is likely to skyrocket—something McDonald's son, Martin, will have to address when he takes over the insurance business from his father some years from now.

Those who already have made the leap couldn't be happier about their Digital Age careers. For Hans Koch, a former commercial property manager, cutting out the old-style broker is the whole point of his owners.com site. Launched in 1995, the site provides home listings and photographs and, in some cases, the lowdown on neighbors. Koch charges sellers \$115 to list a property and predicts that sites like his, with their savings to users, eventually will boost the number of homes sold without an agent to 40%, from a longstanding 20%—and will "change the economics of the deals for the remaining 60%."

The lesson here, says Saffo: "Middlemen aren't dead. They're just reinventing themselves." As more consumers start shopping online, any broker who doesn't weave the Web into a business plan is almost certain to run into trouble. Agrees gasket and seals broker Whitlock: "If you don't know how to use the Net yet, learn. Because if you're not part of the rubber, you're part of the road." Still not convinced? Just ask Whitlock's wife, Rita. "Now," she says, "Jerry's home for dinner."

By Marcia Stepanek in New York

NET FACT

84% of insurance companies **worry** that the Internet could **steal business**, and **59%** say there's a high risk it could also spur increased price competition, according to a Booz Allen & Hamilton survey of 140 personal/casualty companies

SECURITY

HOW SAFE IS THE NET?

For most businesses, not safe enough. So they're building their own private networks

The first sign that someone is tampering with GTE Corp.'s global data network is a warning message that appears on a computer monitor nicknamed "Prozac." Every second or two, another one pops up, indicating that an uninvited guest is logging onto the network that GTE operates for National Semiconductor, CVS, Taco Bell, and 300 other corporations and government agencies.

Most of the time, it's GTE engineers making

adjustments to the network—something the women who watch the screen can tell by glancing at the color-coded messages. But every so often a speaker in the corner of the cramped room calmly intones, "Red Alert," and the women straighten up in their chairs. Eyes narrowing, they quickly type commands that might catch an intruder from the "demilitarized zone" outside the network's hardened firewalls.

With so much talk about the billions of dollars made in E-commerce, you would think the Net already was secure for business. Not exactly. While some transactions, including E-mail and simple home banking, can be protected through basic encryption, the secure environment that businesses need to carry out lots of confidential transactions still doesn't exist.

Indeed, concerns about security run so deep that they are slowing use of the public Internet by corporations. Fear, says Jack Danahy, director of security services at GTE Internet, "is having a negative effect on the people are adopting the Web" for business transactions. The reality is that fewer than one in seven companies is willing to link critical applications to the Net, according to a recent survey by the Open Group, a consortium of global companies pushing for security standards.

Most experts believe the delays are temporary. E-commerce, after all, was doing well before the Internet's rapid explosive growth and has been steadily building momentum. Today, companies continue to invest in private networks that, in reality, run on the public telecommunications system—just as General Electric, General Motors, and IBM have done since the 1970s.

LICENSE TO HACK. Then there's the ultra-private network—SWIFT, the international settlement system based in Brussels. With responsibility for nearly \$3 trillion in electronic money transfers every day among the world's 3,000 largest banks, SWIFT Chief Executive

Leonard Schrank says he never considered using the public Internet. Instead, SWIFT is spending hundreds of millions of dollars to link member banks with dedicated fiber. The result looks more like a fortress than the long-heralded Information Superhighway. "Security is the price driver," says Schrank. "That's different from the Internet, which was built as an access exercise."

Promoters of the Internet and cyberspace in general view such private networks as perhaps necessary but backward. For one, these systems are expensive. And because they are private, they don't take advantage of the Net's most celebrated attribute: ubiquity.

Still, businesses are willing to forego ubiquity to maintain security. "Without a common set of specifications and products that guarantee security and reliability, the Internet may simply become an interesting public-access network."

NET FACT

More than **80%** of companies say **security** is the leading **barrier** to expanding electronic links with customers and partners



mation.

the most important game in town.

rt management, storage and

reval solutions are critical to success.

you're in charge.

ay it smart.

ing is longer lasting

more cost-effective than microfilm.

ore information,

s at www.aiim.org/fbi

your request to 914-789-8165.

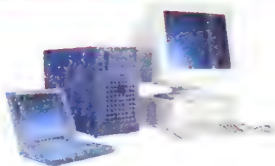
microfilm Play for keeps.

ased Imaging



Member
Council





Dell offers a complete line of products including PowerEdge® Servers, Inspiron™ and Latitude® Notebooks, OptiPlex® and Dell Dimension® Desktops, and Dell Precision™ WorkStations. All products, and even service, can be customized to meet your needs. 1.800.569.DELL.

Intel, the Intel logo, and Pentium are registered trademarks of Intel Corporation.

Dell, the Dell logo, Be Direct, PowerEdge, Inspiron, Latitude, OptiPlex, Dell Dimension, and Dell Precision are trademarks and/or registered trademarks of Dell Computer Corporation. ©1998 Dell Computer Corporation. All rights reserved.

Eliminate steps.

Eliminate runaround.

Eliminate obstacles.



**At Dell, we believe nothing should
stand between you and us.**

Want a clear path to success?

BE DIRECT™



www.dell.com

Michael Sullivan-Trainor, an analyst at International Data Corp. in Framingham, Mass.

How hack-prone is the Internet? Even cocky security consultants admit that in time, determined hackers can surmount any barrier. Private networks have higher walls, but they are not impregnable. Last year, a group of Texas hackers snatched unlisted phone numbers and personal credit information from private networks run by SBC, GTE, MCI, and Sprint—and wreaked \$500,000 of damage. But what scared telephone companies and the FBI most was the group's ability to gain control of core programs, known as root access, enabling the transgressors to reroute calls from FBI crime centers to sex chat lines in Hong Kong and Moldova.

The good news is that so much talent is being dedicated to improving computer security.

SIX SIGNS THAT YOU HAVE BEEN HACKED

UNKNOWN ACCOUNTS added to your system. Hackers may have created a back door onto your network.

EXCESSIVE LOG-ON FAILURES With enough knocking, hackers can force some doors on your intranet to open—and some accounts don't automatically close after a certain number of attempts.

UNEXPECTED CRASHES or reboots of the computer. Some hacks require the addition of new code, followed by a reboot to load it. If you didn't just reboot your system, who did?

MISSING LOGS or gaps in records. Sometimes, hackers can only cover their tracks by deleting portions of files. Gaps, then, become the telltale tracks.

HEAVY TRAFFIC after midnight. Do you do a lot of communing with your Asian office? If not, think about why your midnight-to-sunrise traffic suddenly exceeds your daylight loads.

SYSTEM LOGS that quickly fill up. Each company is different, but these critical logs are usually spare because only a few people have access. If a hacker is impersonating a "sys-op," you'll see it here.

DATA: PRICE WATERHOUSE SURVEY

Netscape, Microsoft, IBM, Cisco, and Lucent have all made it a research priority. And startups are turning it into a market. Its leaders include Checkpoint Software, Network Associates, VeriSign, Security Dynamics and its RSA subsidiary, and Entrust, which have a combined market cap of about \$11 billion.

E-PASSPORTS. Their primary strategy emulates the military doctrine of deterrence: make it so expensive for interlopers to gain access that it simply isn't worth the cost. Companies do this by constructing concentric layers of encryption, using quick-changing passwords, and adopting devices known as digital certificates. The certificates act as electronic passports, strictly limiting entry to different areas of the network.

None of these defense schemes is cheap, however. And in the end, says GTE's Danahy, "You're protecting yourself against a risk that you can't quantify all that well." Barclays Bank PLC, for instance, calculates that it costs about \$800,000 a year to maintain each of its three major fire-

walls. "Even for a large corporation, that's a major expense," says Paul G. Dorey, group operational risk director for Barclays.

Many companies now sell off-the-shelf firewall products. But the systems must be customized, since no two companies will make the same decisions about which employees or outside customers should have access to different areas on the network. Monitoring and maintaining the firewalls also soaks up plenty of human resources. As for digital certificate systems, implementation costs run about \$185,000 for a large business and nearly as much each year to keep current. Meanwhile, user authentication, which relies on rapidly changing passwords, can cost as much as \$4 million to roll out at a big organization.

ARE YOU CERTIFIED? But, if you're doing business across the Internet, your security is only as good as that of your E-commerce partner. Many companies hooking partners up to an extranet now specify the types of routers, firewalls, and security procedures each partner must employ to safeguard the extranet connection before turning it on. Cisco Systems is going one step further. The networking giant sends its own security engineers to examine a partner's defenses and holds the partner accountable for any security breach that originates from its computers.

Federal Express Corp.'s challenge is to maintain security as it manages 60 million electronic transactions every day. Some 140,000 employees use its systems, which have all sorts of information that must be kept confidential: account numbers, container contents, and even home addresses of senior executives at customer companies. "A loss of trust would be very expensive," says Tom Buss, FedEx's senior manager for data protection.

In May, the company began distributing digital certificates to all its employees. These IDs cling to the owners wherever they roam. FedEx's vast computer system, and the data it required each time a user seeks access to other computers or records. They raise barriers against internal hackers, who are at least as common as attackers from the outside. One advantage of certificates, Buss says, is that employees need to remember only a single password to activate their digital certificates when they log on at the beginning of a computer session. After that, access—or denial—is automatic and invisible.

Even if such approaches spread rapidly, however, they represent only a partial fulfillment of the promise of Web commerce—the promise of ubiquitous access at low cost. That is why many companies are waiting for stronger assurances before moving more of their business online. Says Sullivan-Trainor: "Business folks can't go into the Internet naked and expect it to protect them the kind of coverage they need to do business." For now, at least, companies have been bringing their own suits of armor.

By Paul C. Judge in Atlanta

business
ay,
not
t
ut
ning...

*It's about
winning every day.*

When everyone is moving in the same direction, toward a common goal, with a clear understanding of their role – that's when you start distancing yourself from your competition.

At Intellution, our goal is to connect people on all levels of your operation – from the control room to the board room – so that everyone is in synch with the mission.

Our top-rated FIX Dynamics™ family of automation software solutions is enabling companies large and small, in all industries, to get the information they need in real-time – for faster, more intelligent, more effective decisions. Which is why three out of four Fortune 100 companies rely on us for their manufacturing automation solutions.

Call for your Industry Excellence Portfolio and see how other companies are winning every day with Intellution.

Intellution®
THE INTELLIGENT SOLUTION.™

www.intellution.com 800.526.3486

ONLINE MERCHANTS

CYBERSPACE WINNERS: HOW THEY DID IT

Convenience, huge selections, and a few electronic twists give these Netrepreneurs an edge

Two and a half years ago, Pierre M. Omidyar decided to launch a Web site. Inspired by his fiancée's passion for collecting Pez dispensers, the Silicon Valley entrepreneur hit on the idea of building a flea market in cyberspace—where people could buy and sell anything to anybody. There was one snag, though. How could he persuade complete strangers to trust one another enough to hand over merchandise or cash without ever having met?



PIERRE OMIDYAR Founder and chairman, eBay

Omidyar calls eBay, which runs 400,000 daily online auctions, an experiment in E-commerce based on trust. What brings buyers and sellers together? Participants post descriptions of what it was like doing business with others. eBay's take: 5% of the transaction, generating \$6 million in first-quarter revenues—what it made all last year.

Omidyar's solution was to devise a system where buyers and sellers can rate their experiences with different traders. eBay Inc. assigns a point for positive comments, zero for neutral responses, and minus 1 for negative feedback. If someone racks up a score of minus 4, they're not allowed to use the service anymore. That provided the assurance people needed to feel comfortable trading with one another—and it helped Omidyar's eBay become the largest person-to-person auction site on the Web, selling \$10 million in merchandise in the first quarter of this year. "I trust someone to send a check as they've bought something, and they trust me to send them a box of rocks," says Bruce Malin, who sells computer parts on the site.

Omidyar isn't getting rocks, either: eBay has been profitable nearly from the start. In the first quarter of this year, revenues hit \$6 million as much as it generated all last year. Here's a good company. Dell Computer, E*Trade, Columbia House, Eddie Bauer, and 1-800-Flowers. These are just a few of the big-name brands that are turning the Web into a profit center. And for every household name, there are dozens of mom-and-pop sites that are making a go of it in cyberspace.

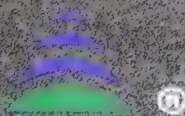
SURF CITY. It wasn't always that way. For two years, even as the number of commercial transactions exploded, from 2,000 in early 1995 to 41,000 this year, there was one statistic that didn't budge: Only 30% of E-commerce sites were profitable, according to market researcher ActivMedia Inc., which has been surveying Web sites since 1994. And the lucky few that were operating in the black didn't generate eye-popping returns. That situation is changing. By the end of last year, 46% of online stores were operating in the black, although the bulk of those remain small shops, says ActivMedia.

What has changed? For one, the number of people roaming the Web's virtual aisles has jumped, from 14.3 million in 1995 to 41.5 million at the end of 1997, according to Cyber Diagnostics Inc. But that only goes so far in explaining why some cybermerchants have risen above the throng of online stores to become such standouts. What is their secret to success? And how do Netrepreneurs who pioneered E-commerce maintain their edge as the giants enter the game?

In cyberspace, successful shopkeepers stand out by doing what all good merchants do: They give customers a special reason to stop by—whether it's to get the widest selection, the greatest



SkyTel



CAESAR - KEEP YOUR
EYE ON BRUTUS -
I'LL EXPLAIN LATER.

IF YOUR PAGING SERVICE ISN'T GUARANTEED,
YOU COULD BE MISSING SOME IMPORTANT MESSAGES.

Romans, Countrymen - SkyWord Plus from SkyTel is the first nationwide paging service that guarantees you'll get all your messages. If your pager's been off, your batteries have died or you've been out of range, SkyWord Plus stores your messages and automatically delivers them to you when you return to full service. And all of this costs less than most ordinary paging. So get SkyTel. Get the message, guaranteed.

Caller I.D.
Now Available.

FEATURES	SKYWORD PLUS SERVICE
Guaranteed Delivery	Yes
E-Mail On Your Pager	Yes
Protection Against Garbled Messages	Yes
Monthly Cost	\$24.95



Call 1-800-815-9541
or visit www.skytel.com

SkyWord Plus price includes 600 10-character messages. Equipment and enhanced services available at an additional charge. ©1998 SkyTel



MATT HYDE Online store manager, REI

Two years after going online, Recreational Equipment's cyberstore is expected to make a profit this year. The Seattle-based outdoor equipment and clothing retailer keeps the site simple—even with 8,000 products and tutorials on, say, the best crampons for mountain ascents. "If it's not simple, people won't use it," says Hyde.

convenience, top-notch service, the best products, or deep knowledge of whatever they're selling.

Then they add an extra digital twist. That can mean playing into the psychology of the Net—the way eBay and online auction site Onsale tap into cybershoppers' penchants for bargains, competition, and interaction with other buyers and sellers. Or it can mean using the Internet's unique ability to provide personalized service, the way 1-800-Flowers Inc. will send you an E-mail reminder of your wife's birthday, or Amazon.com Inc. will recommend a book you might like. "The pattern of all the successful Internet companies is that they're doing things that can only be done online," says Jeffrey P. Bezos, chief executive of Amazon.

Amazon has fine-tuned the art of online selling. It has done that by beating its real-world rivals at their own game. In the bookstore business, chains such as Borders Inc. and Barnes & Noble Inc. have

cleaned up by building superstores and stocking them with a huge selection, often at discounted prices. Because it operates in cyberspace, Amazon doesn't actually stock much inventory. Amazon can go the superstores one better: It boasts millions of titles, including those that the giant would probably never stock—say, a fly-fishing guide to Montana from an obscure publisher.

The bookseller is now expanding the inventory it holds to cut delivery time to customers and reduce its shipping costs. Because it can move sales so easily, Amazon can avoid getting stuck with as many returns as conventional brick-and-mortar sellers. And for phase two: Starting on June 11, Amazon plans to extend that approach to a new market—music CDs. By offering CDs, the company wants to make the most of cross-selling and upping the size of each individual sale. Amazon's revenues ballooned to \$147.8 million last year from \$15.8 million in 1996. Profits, however, are nonexistent, as the bookseller plows money into marketing and expanding its business.

QUICK-CHANGE ARTISTS. Amazon illustrates another lesson of successful Web selling: Online merchants must continually reinvent themselves in this fast-changing medium. The best Web sites use the Net to solicit feedback from customers, then apply it to making the site easier to use or adding new features. Sporting-gear retailer Recreational Equipment Inc. (REI) encourages visitors to its Web site to send suggestions. Those ideas are helping shape an overhaul of the site to be completed by October. Microsoft Corp., too, is constantly revamping its family of Web sites. All told, Activision says that \$1.5 billion will be spent this year enhancing commercial Web sites.

Staying ahead also means evolving along with the Web. The big navigation sites, such as HotBot Inc. and Excite Inc., started out making money from advertisers that wanted to reach the millions of Web surfers who frequent their sites. Now these companies are angling to be tomorrow's trading centers, collecting fees or a cut of the revenues of merchants that want placement on their sites. Commerce accounted for 22% of last quarter's revenues for Yahoo!, which is expected to report its first full year of profits this year. At

June 8, it paid \$4 million for ViaWeb, the maker of software for setting up online storefronts that will allow Yahoo! to help small merchants get up and running and connect to the Yahoo! site.

No company understands the art of reinventing itself better than Computer Corp. The maker is on a jinx to make its site super convenient. Already No. 1 online merchant

MONEYMAKERS ON THE NET

WEB SITES PROFITABLE

from current sales

46%

EXPECTING TO BE PROFITABLE

in 1-2 years

29%

EXPECTING TO BE PROFITABLE

in 3-5 years

6%

EXPECTING TO BE PROFITABLE

in more than five years

1%

NOT GENERATING

revenue at the site

19%

DATA: ACTIVEMEDIA INC. SURVEY OF 2,069 SITES



FASTER THAN A SPEEDING CIVILIZATION.

You don't have to blaze through the forest, hug trees and grow a beard to escape the cruel grip of civilization. Introducing the completely reinvented 1998 Rodeo. Escape from all things urban. Its new 205 horsepower V6 can outrun an office rumor. The new 5-link suspension dampens stress and crushes worry. So, in the name of progress and the freedom of the open road, meet **THE NEW 1998 RODEO.**

Specialized Worldwide Builders of Adventure Machines



Go farther.

The Digital Bazaar

Dell in May decided to revamp its site so customers can configure their dream machine online, then store the selection for up to two weeks. That allows customers to compare prices elsewhere before buying and gives the Web site an added advantage that earthly storefronts aren't likely to match. "You have the opportunity to do things online that you couldn't do offline," says Scott Eckert, director of Dell Online. Dell, which has seen its online sales swell from \$3 million a day in November to \$5 million in May, expects its online business to make up 50% of total revenues by 2000.

What Dell, Amazon, and others have learned is that their business models must be as dynamic as the Web itself. A niche marketer with a strong franchise may try to become a superstore. A superstore, faced with shrinking margins, may delegate more tasks, such as managing and shipping inventory, to its suppliers. And many Web sites are evolving into New Age middlemen, matching up buyers and sellers.

What are the veterans of Net commerce finding that their customers want? In many cases, it isn't lower prices so much as convenience. REI generates 35% of its online orders from 10 p.m. to 7 a.m., when no REI store is open and no mail-order operator is available. REI's online sales are growing 20% to 30% monthly and are expected to surpass sales at its 100,000-square-foot flagship store in Seattle within the next several months—and turn a profit. "The goal is to provide any product any place at any time," says Matt Hyde, the manager of REI's online store.

BRANCHING OUT. Convenience—along with rock-bottom fees—is behind the booming business being done by online brokerages, such as Charles Schwab & Co. and E*Trade Group Inc. The edge: Customers can buy and sell securities from their own homes or offices without a broker. "We've got branch offices in 22 million PCs," says Christos M. Cotsakos, CEO of E*Trade, which pulled in \$6.1 million in profits in the quarter ended Mar. 31, double that of a year ago. It's the same story at hundreds of other Web sites. From 1-800-Flowers' online sites,

which did 10% of the company's overall of \$300 million last year, to sites such as Realtor.com that streamline the process of finding a home, convenience is king.

But convenience alone is not enough. Another critical feature is selection. Because eye merchants aren't limited by shelf space and often don't hold inventory, they can offer more products than would be possible in any store. Amazon bills itself as "Earth's Biggest Bookstore," while Barnes & Noble calls its site "World's Largest Bookseller Online."

eToys Inc., a Santa Monica, Calif. startup, wants to be the giant in its category. It already offers 2,200 toys ranging from porcelain Steiff stuffed animals to the latest mass-market toys from Mattel. By October, eToys hopes to dwarf Toys 'R' Us Inc. simply by offering 4,500 different items. Its broad offering is helping to boost sales: eToys track to hit revenues of \$10 million to \$15 million this year. It expects to be profitable at \$1 million to \$10 million in sales—the officials decline to say when.

Garden Escape Inc. has brought the same kind of air bending select home gardening working closely



SCOTT ECKERT Director, Dell Online

With \$5 million in daily online sales, Dell has one hot site. Among its new moves: Listing products based on use, such as in the home or office. "Only 20% of a successful Web site is technology—the rest is knowing your customers," says Eckert.

40 suppliers, the Austin (Tex.) company has 12,000 products and plants. That has helped grow to \$1.2 million in annual sales over the past year, figures Paul Noglows, an analyst at Hambrecht & Quist. He projects the company will break even on sales of \$44 million in 2000.

Garden Escape also has worked hard to build a loyal online clientele by creating a warm, cozy community on its Web site. It offers hour live chats, a weekly gardening quiz and discussions with the site's "garden doctor."

Music sellers CDNow Inc. and N2K Inc. cater to their customer communities. By combining their technology with software from Perceptions Inc., both sites create databases of store and cross-reference data about consumer tastes. Customers can use these "recommendation services" to get suggestions for CDs, based on what other consumers with similar tastes have bought. With such personalized attention

NET FACT

Reaching the customer directly is the biggest benefit from either selling or buying online, according to 43% of companies surveyed in a BUSINESS WEEK/Harris Poll



WE MOVE IDEAS TO FARAWAY PLACES IN MANY DIFFERENT WAYS

tall tale. We're expanding the capacity of our data network to 100 times the size of today's Internet. We have more than 21 million telephone lines in the U.S. We even provide paging services in Beijing. We're GTE. And we're more than just a local telephone company. We're a local, long distance, wireless, video, Internet and directories telephone company. We move ideas many places, in many ways. Where can we take one for you?

GTE

PEOPLE
MOVING
IDEAS

NET FACT

19% of purchasers say they are shopping less in stores, and **14%** say they use catalogues less often because of the Net, says Cyber Dialogue/FindSVP

has achieved a high repeat customer rate that accounts for 55% of its revenues.

Of course, one of the best ways to succeed in merchandising is by offering a great price. A handful of sites stress bargains. CDnow offers top-selling compact disks for 30% below average retail prices. Amazon sells books for up to 40% off the cover price. Cendant Corp., an online shopping club that offers everything from cars to books, also competes squarely on price. Members pay an annual fee of \$40 to \$70 in return for 10% to 50% discounts from suggested retail prices and a guarantee that Cendant will match any rival's price.

NUTS AND BOLTS. But, true savings are rare on the Web—surprising, considering how much Web merchants claim they can save in costs by operating in cyberspace. Many manufacturers won't let cybersellers undercut their retailers, while many retailers with Web commerce sites don't want to undercut prices in their stores. A recent Harris/BUSINESS WEEK poll found that only 12% of E-merchants offer lower prices on the Web than on terra firma. Even the discounts offered by Amazon and CDnow are largely erased by shipping costs.

Still, price competition is expected to heat up

Financial Network and offered on the Prodigy online service.

The upshot: Merchants that have succeeded with seat-of-the-pants entrepreneurialism have to learn to manage the nuts and bolts of a growing business, like keeping their supply chains efficient. One reason Garden Escape is well positioned is that it has cultivated links with 40 different suppliers that tap into a system to receive and fulfill orders. And Columbia House Co., with its club membership, has hit a mix of handling its own shipping, working with distributors that has led to profitability and its forecast of more than \$50 million in sales this year.

Indeed, how cyberstores use electronic commerce techniques will be critical to their success. Web sites such as Columbia House's let distributors ship CDs directly to the consumer. Others, such as eToys and Amazon, prefer holding some inventory because they get shipments faster and pick up bargains from suppliers. That way, they can ship some products 24 hours rather than 48 or 72 hours. "If you can't fulfill at Web speeds, you won't be successful," says Gartner Group Inc. analyst D. Terhune.

WHAT MAKES CYBERMERCHANTS SUCCESSFUL

ULTRA CONVENIENCE Outdoor gear and clothing retailer REI racks up 35% of its online orders between 10 p.m. and 7 a.m., when its stores are closed and its mail-order operators aren't available. Dell's cybershopping cart lets customers customize a PC online and then store the selection for up to two weeks.

SUPER SELECTION Unlimited Web store shelf space means E-merchants such as Amazon.com and eToys can offer sites full of offerings. Amazon, "Earth's Biggest Bookstore," has more than 3 million books, plus music and other products. Realtor.com lists 1.1 million homes, which it claims is more than 90% of all homes for sale in the U.S.

COMMUNITY SERVICE eBay's virtual flea market, with lively chats and ratings systems, keeps subscribers buzzing about shared interests ranging from memorabilia to stamps. "Recommender services" at sites including N2K's Music Boulevard track information about customers' tastes and suggest books and CDs that might be of interest.

PRICING POSSIBILITIES CDnow offers its hottest-selling compact disks for 30% below average retail prices, while Amazon sells books for up to 40% off the cover price. But considering how much Web merchants claim they can save in costs by operating in cyberspace, true savings are rare once shipping costs are figured in.

as more merchants flock to the Web and consumers get tools that let them price-compare with the click of a mouse. Consider the online brokerage business, where price competition is already fierce. Commissions on stock trades have plummeted to less than \$10 a trade in some cases. And the cost of developing and maintaining the technology needed for a sophisticated site is skyrocketing. So is the cost of luring new customers—many online brokerages spend \$250 or more in marketing to nab each new customer. "It doesn't sound like a great business to be in," concedes Blake Darcy, chief executive of DLJdirect Inc., an online trading site. "But the big players can create enough of a scale."

Darcy should know: DLJdirect, which has been rated by Gomez Advisors Inc. as the No. 1 financial site, has some 450,000 customers with \$6.5 billion in assets. And it has been profitable since the late 1980s, when it was called the PC

In the Internet Age, instant gratification can be had—and is increasingly expected with the click of a mouse, 24 hours a day. The digital zeitgeist is summed up by a new Web site called Streamline Inc. The Web site, based in Westwood, Mass., and backed by Intel Corp. and software giant SAP, lets harried shoppers order groceries, arrange to have their dry cleaning picked up, have a meal delivered, or have their old bottles and cans whisked off to the recycler—all from a single Web site.

Jill Levinson, a Streamline customer in Boston, where the service is initially available, can't believe what a difference it has made. "You run into another customer, and you say, 'Oh my God, hasn't this changed your life?'" Sounds like another winner.

By Heather Green in New York, with Steve Browder in Seattle

Never underestimate the importance of people.

A friendly reminder from the people who can get the best out of yours. **Hewitt**
Improving Business Results Through People

CYBERPRICES

SO WHERE ARE ALL THE BARGAINS?

Lessons of a Web shopping spree:
The convenience is unbeatable.
But the price most often is not

These days, it seems, everyone is talking about the deal they got by shopping on the Web. After all, it's less expensive for retailers to hang their shingle on the Internet than in a shopping mall—no rent and minimal staff, among other cost savings.

But don't rush to fire up that browser, expecting to click your way to a great bargain. While shopping electronically is almost always a

WINDOW SHOPPING ON THE WEB

BUSINESS WEEK comparison-shopped for consumer goods of every stripe, online and off. Here are some of the results:



CLOTHING

GAP (WWW.GAP.COM)

	ONLINE	AT THE STORE
Slim Fit Khakis	\$34.00	\$34.00
Shipping	4.95	
Tax (NY State @8.5%)	2.89	2.89
Total	41.84	36.89

time-saver, so far the economics of the Web are not being passed to consumers. Sure, at first glance there appear to be some deals on the Info Highway. But add in shipping and taxes, and there go the savings. Except for a couple of exceptions—say, in books and compact disks—few online merchants are willing to upset the status quo by offering radically lower prices in their virtual stores.

Even Netrepreneurs such as eToys have no desire to be price pioneers. Instead, the toy merchant has a more modest goal of generally matching the price tags offered by rival brick-and-mortar retailers. "We don't have lower pricing," says Phil Polishook, vice-president of marketing. "Our research shows that while price is important, convenience is more important right now." And the establishment? Forget it. Brand-name manufacturers don't want to undercut retailers. And retailers certainly don't want to give shoppers a reason to stay away from their stores.

The bottom line: E-shopping is really about convenience, not price. The enthusiasm from the colleague who just ordered a stack of CDs is really from the combination of an easy shopping experience and competitive prices. "What really locks the consumer in," says Steve Johnson, a co-director of Andersen Consulting's electronic-commerce practice, "is the convenience and the satisfaction of knowing that price is the ballpark."

To get a feel for what the E-shopper can find in the way of discounts, BUSINESS WEEK went on a cyber window-shopping spree. We decided to stay away from online auction houses, because many have surplus or odd-lot merchandise. Instead, we shopped for brand-name goods. We found some nice deals, but not many—at least not enough to declare online shopping the Club of the Internet Age. And we came away with only one item with the kind of discount that gives hard-core bargain hunters that warm glow—a book at 50% off.

What did we shop for? Everything: clothes, watches, barbecues, blenders, vacuums, toys, computers, airline tickets, insurance, cars, even bicycle helmets. In all, some three dozen products from name-brand manufacturers and retailers, ranging from Wal-Mart to Amazon.com. Sadly, fewer than 10% of the products in our virtual stores had better prices than what could be found on terra firma.

DOLLARS AND SCENTS. Those few good deals could be had on products ranging from the trivial (books) to the sublime (perfume). Barnes & Noble Online has a great deal on *Freedom*, the new novel by Richard Price. At \$12.95, the hardcover copy, it is 29% lower than its price on Amazon.com and 44% lower than its own \$22.50 where it sells for \$22.50. Meanwhile, Amazon.com and other online booksellers sell Powell's Books are 30% cheaper than EzyBooks, a retail chain where you can pay \$27.13 for the Price novel. As for those typically pricey perfumes, Fragranceset, a four-year-old company, is selling a 4-ml bottle of Oscar de la Renta 55% off the retail price.

You also save a few bucks at cyber stores that don't hit you with a local sales tax. In



CAR

BMW Z3 1.9

ONLINE	
Auto-By-Tel	(WWW.AUTOBYTEL.COM) \$32,900
Auto By Internet	(WWW.AUTOBYINTERNET.COM) 33,900
Microsoft CarPoint	(CARPOINT.MSN.COM) 33,900
AT THE DEALER	
Hassel Motors Inc., Freeport, NY	\$32,900

IT'S YOUR BOTTOM LINE.

(WE JUST WANT TO GIVE IT A BOOST.)

You've got enough to worry about. And from now on your sales department won't be high on the list. Because now you can reap the benefits of AurumFrontOffice. A single-environment front office suite with powerful sales, configuration and call center applications. A completely integrated Web-based solution. Enabling you to arm your sales force and distribution channels with 100% accurate information at the point of sale. 100% of the time. The result? Sales people sell. Distributors distribute. Products get to market faster. And all of a sudden you're looking at a better bottom line.

We'll take care of it for you. Just as we have for some of the world's leading companies — Hewlett Packard, Lanier, PG&E Energy Services and MetLife, to name a few. Find out how. Visit us at aurum.com and request the Aurum Solutions Guide. It's got in-depth information on how to improve your sales process. For an improved bottom line.

CALL FOR THE AURUM SOLUTIONS GUIDE

1-800-683-8855 EXT.129



AURUM

A Baan Company

York, for example, it's an additional 8.5% on top of shipping and handling costs. That's why buying a \$149.99 top-of-the-line bicycle helmet online or through a catalog is \$5 cheaper than walking into a bike shop in Wantagh, N. Y.

Still, buyer be aware. Remember those khakis that look so cool in the Gap ad on TV with the couples dancing? Well, it's cheaper to

	ETOYS (WWW.ETOYS.COM)	TOYS 'R' US
	ONLINE	AT THE STORE
Sing & Snore Ernie	\$27.99	\$19.97
Shipping	6.95	
Tax	NONE	1.70
Total	34.94	21.67

go to the store. A pair of women's slim fit khakis costs \$41.84 if you buy them at Gap's online store. Walk into any Gap (in New York) and you'll save 12%, or \$4.95, because you won't get hit with shipping charges. And while you're at the mall, check out that briefcase from Eddie Bauer you saw online for \$60.03. You can walk out with it for \$52.08—that's 13% less than it costs at the company's online store.

The same goes for lots of other products. At eToys, Mattel Inc.'s Sing & Snore Ernie comes to \$34.94, more than what you would pay by venturing out to a store. (Wal-Mart Online has it for \$37.30.) But at Noodle Kidoodle and Service Merchandise stores, the price came to \$32.54, including tax. The best deal: \$21.67 including tax, at good old Toys 'R' Us.

Ditto for that Timex watch. The 8-Lap Ironman Triathlon can be ordered from Timex' online store for \$46.60. Stop in at Caldor and you can pick it up for \$46.59. By the way, Service Merchandise has a sale running till June 28: That watch is \$34.99 for walk-in or click-in trade.

Something just isn't computing. With all the

talk about the Internet being a cheaper channel for businesses, why isn't that reflected in consumer prices? The economics of setting up an E-shop vary greatly, and so do the goals of most companies online. Manufacturers are going to ace out their retailers with lower prices online. "We don't currently have any plans to go more online, it's disruptive to our channel partners," says Kathleen Rarey, director of corporate communications at Calphalon, a maker of cookware. The company has been selling online since 1997, but with a very limited line of products fewer than 10 items that are discontinued on special order. "We want to increase product awareness and drive consumers to retailers."

Even qvc Inc., the king of home shopping, doesn't want to risk messing things up. It has a few weekly online promotions at 10% off what's on TV. But the online unit, iqvc, sells prices goods on par with the TV service, says Stuart M. Spiegel, general manager of iqvc.

BASE BUILDING. For now, E-shopping is still a new phenomenon, and many merchants have recouped online costs before the benefits really begin. Analyst Jamie Kiggen of Donaldson, Lufkin & Jenrette Inc. estimates that Amazon.com has spent up to \$50 million to set up shop. Barnes & Noble doesn't expect the bookseller to reach the key

scale—in buying power over a customer base—that will give it significant volume until 2001. By then, he predicts operating margins will begin to grow, reaching a high of 12% by 2003, far above the typical low-to-mid single digits for a storefront bookseller.

One of the few disrupters on the Web is Cendant Corp., which carries everything from clothes to appliances, and claims it can match any competitor's

price. But Cendant's prices—between 10% to 50% below suggested retail—are possible because of the company's mix of paid members and sales revenue. Cendant's services on the Web and America Online Inc. have more than 700,000 members who pay between \$4.95 to \$70 in annual subscription fees. Says Scott Land, senior vice-president of interactive services: "Because of our scale, we sell a lot of stuff at a pricing advantage that others won't have." A Caffe Capri Espresso/Cappuccino & Coffee combo by Delonghi was charged nearly \$7 at Cendant than at Wal-Mart Online, which lists it for \$79.96. But an iPowerBlend 10-speed Glass Jar Blender at Wal-Mart Online is \$24.96, about \$3.50 lower than Cendant.

Just remember as you click your way from virtual store to virtual store: You may find shopping a great time-saver, but it may not be a big money saver.

By Ira Sager, with Heather Green, in New York

	PERFORMANCE BICYCLE SHOP (PERFORMANCEBIKE.COM)	BRANDS CYCLE & FITNESS (WANTAGH, N.Y.)
	ONLINE	AT THE STORE
Helmet	\$149.99	\$150.00
Shipping	7.90	
Tax	NONE	12.75
Total	157.89	162.75



At least my data's safe.

Isn't your propensity to misplace things the reason you meticulously record all your appointments, contacts, to-do list and expenses in an organizer anyway? Well, what if you misplace your organizer? Then where are you? Probably on your way to get a Palm III™ organizer. Because HotSync® technology lets you back-up and exchange information (like e-mail) with your PC so you won't lose your data even if you lose your organizer. There's never an occasion for entering things twice – it's all there, all the time. And with infrared transfer, you can send information and applications to other Palm III users. Thousands of developers are making new applications available every day, and since Palm Computing products are already the fastest selling handheld computing products in history – fewer people are saying,

"I meant to call, but I lost your number." For a Palm III

retailer near you, visit www.palm.com

or call 1-800-861-2529

Palm III™

The connected organizer.

PalmPilot® Professional \$299*

- Instantly syncs with your PC
- Stores thousands of entries
- E-mail and Internet ready

Palm III Organizer \$399*

Includes PalmPilot Professional features plus:

- Infrared Transfer
- Twice the memory
- Applications available from thousands of developers
- Links to Symantec ACT! and Microsoft Outlook 97 included

Optional links (sold separately) available for:

- Ascend 97
- ECCO
- GoldMine
- Lotus Organizer and Notes
- Maximizer
- and more

Palm™ Mail compatible with:

- Eudora 3.0.3 or higher
- Lotus cc Mail v7.0, 6.0, 2.5
- Microsoft Exchange 4.0 or higher
- Microsoft Outlook 97
- and more

TM
PALM
COMPUTING
PLATFORM

3Com



* list prices. MacPac connection kit, required for Macintosh connectivity, sold separately for \$14.95. Palm™ Mail and Expense applications are desktop software not supported on Macintosh. © 1998 3Com Corp. 3Com, the 3Com logo, Palm Computing, and HotSync are trademarks, and PalmPilot, Palm III, Palm, the Palm III logo, and the Palm Computing platform logo are trademarks of 3Com, Inc. or 3Com Corporation. Other product and brand names may be trademarks or registered trademarks of their respective owners. Not manufactured by Pilot Corporation or Pilot Corporation of America, manufacturers and distributors of writing instruments.

COMMENTARY

By Neil Gross & Ira Sager

CAUTION SIGNS ALONG THE ROAD

Business, consumers, and techies
are grappling with the Net's perils

Companies are tearing up the track in the race to realize Internet-based electronic commerce. That's fine. Fortune will certainly favor the swift. But it pays to consider some of the yellow flags that have flashed along the roadway—and others that will be spotted before long.

The Net already feels jammed at times, even though E-commerce is still in its infancy. And there are other obstacles. Technical standards remain to be worked out. Security is much on executives' minds. And there are cultural questions that cut to the core of how people choose to amuse themselves. How

many after-work hours will ordinary consumers be willing to spend shopping online? The Net has already demonstrated a capacity to correct its own errors. E-commerce will certainly not be derailed. But there will be jolts and delays along the way.

Congestion is the most obvious challenge. By the year 2000, the number of devices equipped to tap into the far-flung Info Highway will shoot to 233 million, up from 16 million in 1995, according to market researcher International Data Corp. (IDC). Nearly 46 million people will be buying goods and services over the Net, up from 1 million who do so now. A decade after that, IDC envisions 1 billion wired consumers—with Net links to countless information appliances in the home, from smart TV-set-top boxes to refrigerators that alert the service shop when they need repair.

REROUTING TRAFFIC. Yet congestion is mainly a technical problem—exactly the kind of thing smart engineers can finesse. They're already handing out fast cable and digital-phone modems to consumers who are cursing slow 28.8-kilobit Internet access. Businesses also will learn to avoid logjams on the Web by using backup computer servers and by routing some types of traffic at odd hours or along less-traveled pathways. Through such steps, companies can probably cope with "flash crowds," which IBM researcher Steve R. White expects to occur as more businesses mount widely publicized online sales and other events.

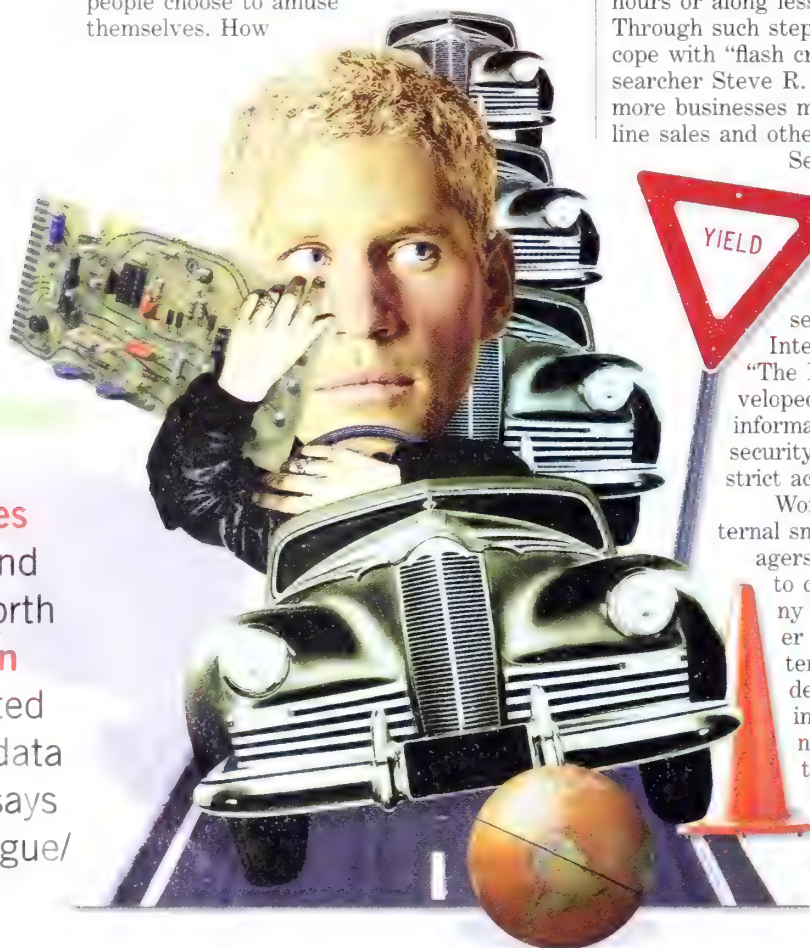
Security and privacy are knottier problems. Today, Net security is practically a contradiction in terms, says Jack Danahy, director of security services at GTE Internetworking Services.

"The Internet is a medium developed to provide wide access to information," he points out. "But security means being able to restrict access selectively."

Worried about hackers and internal snoopers, your network managers probably seal off access to certain areas of the company using "fire walls" and other techniques. But open Internet standards weren't designed with such secrecy in mind. And when companies take ad hoc measures, they wind up sporting a host of incompatible software systems, making communications more cumbersome. Here again, the techies will probably rescue us. Security

NET FACT

Offline sales of goods and services worth **\$4.2 billion** were affected by online data in 1997, says Cyber Dialogue/Find SVP





**Linking laptops
to desktops,
accounting
to sales, U.S. to
Europe, and
you to the
Fortune 500.**

Global company to succeed today, everyone and everything in the company must be on the same page. Wang Global can provide you with that page. We are an over \$3 billion service and product provider, offering a full range of network and desktop solutions to businesses throughout the world. We can design, deploy, maintain and manage a network that integrates your entire business into one efficient, money-making machine. 1-800-262-3696, ext. 1233. www.wang.com

WANG
GLOBAL
Network Technology Services

is a hot research pursuit in Silicon Valley and in dozens of academic computer-science labs.

This is not to suggest that business managers can sit back and wait for the gear heads to cook up all the necessary fixes. E-commerce is too critical to be left under the stewardship of any one group. Besides, not all the solutions can be digitally crafted. Academics and engineers will have a hard time resolving issues about personal privacy, which are more social than technical. Information wants to be free, we are repeatedly informed by the rapt disciples of Internet bard John Perry Barlow. But whose information do they mean? The growth crime of the new millennium, according to Net-savvy crimefighters, is a sinister offense called "identity theft," in which crooks sniff out your Social Security number and a few other stray bits of data, then assume your identity and acquire credit cards and bank loans in your name. Not exactly what Barlow had in mind.

Should we forbid companies to stockpile personal data on individuals? Probably not. Enforcing such a ban would be nearly impossible. And if it were imposed, it would present an entirely different kind of threat to E-commerce. Internet businesses have had a hard time dreaming up models for revenue streams that can actually deliver profits. One of the most promising business approaches involves tracking people's preferences online and tailoring products to those users, or else selling the information to others who wish to do so. Throttling the flow of data—if it's even possible—would shut off one of the most promising Net-based business opportunities.

CLEAR LABELS. Fortunately, there are less radical solutions. Indeed, like a living organism, the Net has already spawned features that may thwart the worst privacy abuses. The model here may be TRUSTe, a body created by the Electronic Frontier Foundation to make clear how different Web sites deal with user privacy. The purpose is not to prevent sites from tracking visitors' explorations. The group audits Web sites, and then permits them to display so-called Trust-

marks that clearly identify each site's privacy policies, so that Net users will be able to make informed decisions.

In the same ad hoc fashion, groups of tech-savvy businesspeople hope to resolve the most rancorous debates over technical protocols. Right now, the lack of common standards threatens E-commerce in several ways. Thousands of corporations, for example, are automating their manufacturing, shipping, and warehouse activities by in-

stalling sweeping enterprise programs from the likes of Oracle, SAP, and PeopleSoft. These programs don't swap data with one another easily. And neither do the companies that install them.

Where ad hoc associations can't tread—deep inside corporate boardrooms—pressure to become more efficient may be the best safeguard against threats to E-commerce. Many companies, for example, show worrisome signs of transporting bad business practices directly onto the Net. Gartner Group Vice-President Vinnie Mirchandani has a favorite example of this. Even when dealing with trusted suppliers, he says, manufacturers often require repeated checking of purchase, shipping, and receiving documents to make certain they match. Typically, each such match now costs the company \$15 in labor, tools, and re-

views before the purchase order gets issued. Freewheeling Internet communications offer a means of slashing this redundancy—but businesses aren't taking advantage of it. "Companies simply don't trust their suppliers," complains Mirchandani.

Well, they must learn to, and they will. In the 1980s, companies rushed to reengineer flawed business practices, spurred by nothing more than the need to compete more effectively in a global economy. If Net-based businesses don't tear up old approaches to orders and inventories, they'll soon find that competitors who did so are racing past them. Learning, in the end, is what this whole business is all about.

Neil Gross and Ira Sager write about computers and information technology.

YELLOW FLAGS FOR E-COMMERCE

PRIVACY Encryption helps. But with more personal data flooding online, consumers fret about crimes such as "identity theft."

STANDARDS Businesses running crucial corporate-software programs from Oracle, SAP, and Peoplesoft cannot swap data easily. Robust standards are missing.

CONGESTION You think today's traffic jams are bad? Wait until 2000, when 233 million devices are wired to the Net—15 times the number in 1995.

BOOKKEEPING Businesses must streamline their order and payment processes before attacking E-commerce. Most just carry old ways onto the Net.

QUALITY Networks, which businesses are ever more dependent on, crash

CULTURE Millions of people are already glued to PC screens all day. Many will balk at additional hours of screen-gazing for home shopping and entertainment.

NET FACT

Companies may **invest \$23.6 billion** by **2002** to upgrade their E-commerce systems, according to ActivMedia



f you fly

Environmental controls always ensure a warm welcome at Heathrow.

For all passengers. The air at the world's biggest airport is controlled and conditioned by Siebe. We take care of cabin temperatures when you're cruising at 30,000 feet. Away from airport terminals, environmental controls create the special atmosphere in hundreds of other public and private buildings. From sports stadia to art galleries to millions of homes. In fact, Siebe make you feel more comfortable in places you visit almost every day, and some you only visit when you're going on holiday. Siebe Saxon House, 2-4 Victoria Street, Windsor, Berkshire SL4 1EN, England. Tel +44 1753 855411



KNOWLEDGE MANAGEMENT

TAMING THE
INFO MONSTER

Now, coping with data overload—both inside and outside the company—is a matter of survival

Increasingly, profits will stem from quickly—and well—companies can sort through and analyze what pours over their Net-strut. In the past, labor and capital determined profit. Now, knowhow is the profit engine—and the Internet sends it into overdrive.

To be sure, business has always been about acquiring and using information, all the way back to 1850 when Paul Julius Reuter, founder of Reuters News Service, started using telegraphs to deliver information faster than competitors. But the difference today is the Internet. Like never before, the Internet enables companies to harness information and capitalize on what they know to boost their corporate IQ and get a leg up on the competition. "Getting a handle on information was always a challenge for companies," says Michael van-Trainor, vice-president of Internet research for International Data Corp. "But with the Internet, companies now have a means by which to control this information and make it work for them."

TRENDSPOTTING. Already, corporations from General Electric to Manpower Inc. are experimenting at ways to channel the Internet's vast resources to cut costs, build profit, spot new trends early, swap manufacturing tips with customers and suppliers, and speed new products to market.

What's involved? For many companies, less than a sweeping change in corporate culture. So-called knowledge management is tearing down walls between departments and individuals, inside and outside the company. At the start, that might mean something as simple as conducting in-house "audits" to pinpoint what the company knows and what it doesn't. Or it might mean knowing what inside the company and posting it on the company's intranet.

But that's the easy stuff. The real challenge is convincing employees to share what they know rather than hoard knowledge. At General Electric, Jack Welch, chairman of industrial giant General Electric Co., says: "An organization's ability to learn and translate that learning into action rapidly is the ultimate competitive business advantage."

Doing nothing, though, won't be an option. Stragglers won't just get overwhelmed. In the Net knowledge game, they will get overpowered by rivals who can more quickly turn what they know into profit.

For some companies, the exercise is already starting to pay off. At Texas Instruments,

In the Internet age, the world's great information storehouses—France's Bibliotheque Nationale, the U.S. Library of Congress, Taiwan's National Central Library—are just mouse clicks away. The patent describing the world's first portable computer, the original recipe for sugarless chewing gum, the formula for the vaccine against polio—are all quickly accessible in ways unimaginable just a few years ago.

But what of it? Search the World Wide Web using the AltaVista engine for information about DNA, and the first 10 of more than a million listings include a perfume, a testing service, and a chipmaker—in addition to documents on the genetic blueprint. Unvetted, this info-gusher can deliver too much information to be useful. Yet in the new Information Economy, where corporate survival requires faster and better thinking, companies can't afford to drown in data—either their own or what's available on the Internet.

Stragglers will
lose to rivals
who more
quickly turn
what they
know into
profit



4 R U N N E R

the call of the wild

The wild is waiting. And so is the 4Runner, ready to take you places you've only dreamt of

whispers your name,

before — and to some you never knew existed. All in a sophisticated, roomy comfort that will embrace

and asks if you can

not only your body, but your sense of adventure. The 1998 Toyota 4Runner. Answer the call.

come out and play.



TOYOTA | everyday

1 800-GO-TOYOTA ♦ www.toyota.com

© 1997 Toyota Motor Sales, U.S.A., Inc. Buckle Up! Do it for those who love you.

managers around the world were asked to use the Net to devise, share, and apply new ways to boost efficiency. It became a wellspring of new ideas, enabling TI to hike output and avert the need to build two new chip plants—a move that would have cost more than \$2 billion.

"UNNATURAL ACT." Meanwhile, Cadence Design Systems Inc., a San Jose-based supplier of automated design software, was able to get new sales representatives up to speed and out into the field two to four months faster. How? By creating an in-house Web site that included a step-by-step guide through the sales process, product specs, and profiles of potential and existing customers. Market researcher International Data Corp. estimates the company could save up to \$7.6 million over three years.

But knowledge management isn't just for high-tech companies. Temporary employment agency Manpower currently makes free computer-based training courses available on its Web site. The agency will train potential recruits if they note those courses in résumés. The idea: Manpower cultivates talent, which can be called upon to fill client needs. Says Linda Muchisky, a senior consultant at American Productivity & Quality Center: "The walls and fences restricting who can access corporate knowledge are coming down."

In the Information Economy, such sharing is the new mantra. At GE, for instance, Welch says he had to quash the notion of a "GE way" as the best way to tackle a problem. Now, GE emphasizes a "boundaryless learning culture" that takes good ideas from anyone, regardless of their position or standing, inside and outside the company. Similarly, TI awards the Not-Invented-Here-But-I-Did-It-Anyway prize to encourage out-of-the-box thinking and information-sharing inside the company. And, to ensure that plant managers chip in, TI ties part of its performance bonus to overall manufacturing improvements. "Knowledge-sharing is an unnatural act in most organizations," says Andrew L. Michuda Jr., CEO of Teltech Resource Network Corp., a consulting firm. "Changing employee behavior is 90% of the challenge."

Some might even say it's 99%. At AT&T, for example, middle management at first felt threatened by the move to put a lot more information online. So Patrice Hatley, who di-

rects the company's knowledge-management initiative, set up training sessions with managers to stress how the Net would not be a "tool that would replace them." In the all-customer information was handled by supervisors. Now, AT&T puts some of that customer information online, freeing up supervisors to help solve tougher problems. "Putting information in more people's hands is a thought to some folks and incredibly exciting to others," she says. Hatley also sought to encourage teamwork and Net proficiency by staging "killer hunts" for customer service data, awarding a free movie ticket or a free dinner at a local restaurant to workers who found new information the fastest.

How to do more? Some firms are turning

new software for Mining information customers on the Net becoming the hot trend in E-commerce now, the same kind of technology that Amazon.com uses to track of its customers tastes in books is being developed for application inside companies such as the Baan Co. and CompuLink. Such software, experts say, can be used to organize business information according to the needs of individual customers, clients, and other suppliers.

Don't have time to wade through dozens of pages to find the stuff you need? One-To-One Knowledge from Broadview Inc. in Redwood City, Calif., and SmartKnowledge from Smart Knowledge Inc. in Austin, Tex., offer software that can

profiles of customers, suppliers, and business partners by analyzing their movements on a Web site. Companies such as Internet At Work, Compaq, and Motorola already are using such products to get a better handle on their customers.

The lesson: Companies shouldn't wait until it's too late to dive in. In an era where information is a commodity, the companies that prosper will be those that can use the Net to harness their know-how to competitive advantage. For today's Information Glut will become tomorrow's most valuable resource.

*By Gary McWilliams in Houston
Marcia Stepanek in New York*

HOW TO HARNESS THE INFORMATION GEYSER

PERFORM A "KNOWLEDGE" AUDIT

to pinpoint your company's top intellectual assets, then spread that knowledge throughout the organization.

CREATE AN ONLINE DIRECTORY

detailing the expertise of individual workers and make it available to all employees.

SET UP DISCUSSION GROUPS

on the Net. Work teams can collaborate on problem-solving.

DEVELOP PROFILES OF CUSTOMERS

by using the Net, such as with tracking software that measures how customers use your Web site. Then tweak your marketing strategies to reflect what you've learned.

REWARD INFORMATION SHARING

Make the ability of employees to share knowledge a key part of their performance rating.

Knowledge management, experts say, can often mandate changes in a company's culture

For customized reprints of this Special Report, call 212 512-3148 (minimum order 500). For advertising permission or reprint inquiries call 212 512-4000.

COMMAND and Control

Prudential Securities' COMMANDSM Account— The Ultimate Way to Manage Your Assets

If there's a downside to being a successful investor, it's this: The more money you make, the more difficult it is to manage. Which is precisely why you should become a Prudential Securities client. Only Prudential Securities offers sound advice, high quality products, plus the COMMANDSM Account—one of today's most powerful asset management tools.

Get to know the benefits of investing the Prudential Securities way.

Make your money work harder.

With automatic daily investment sweeps, you'll never have idle cash. Interest, dividends, and other cash credits are swept automatically into a fund of your choice.

Access your account where and when you want.

You can find it all right on your computer with our free Prudential Online[®] service. Or, call our world-class customer service desk—24 hours a day, 7 days a week.

Enjoy free ATM withdrawals

and more. A complimentary Visa[®] Gold Debit Card, unlimited check writing—plus no-fee ATM withdrawals—give you total control over your cash. You can also pay bills and transfer money between accounts automatically.

Track your assets on state-of-the-art statements.

Finally, a statement you can read and understand with ease. Handy pie charts and tables show you your asset composition, realized and unrealized gains and losses, and expense summaries, at a glance.

Expand your borrowing power.

COMMAND Margin gives you easy, low-interest access to your equity. There are no complicated applications or waiting periods. Just write a check or use your Visa Gold debit card.

Simplify your tax preparation.

Customized expense codes make it easy to categorize your expenses. And, your year-end "Instant Replay" statement provides a neat summary of your earnings, dividends and spending. Just give it to your tax professional.

Take COMMAND of your money.
Call today.

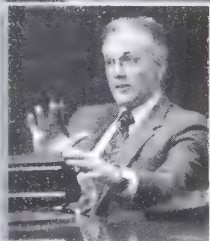
1-800-THE-ROCK
ext. 2242

www.prudential.com

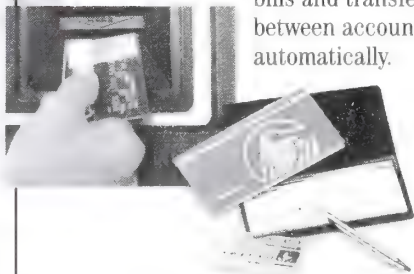


Prudential
Securities

Discover the
advantages of
personalized
advice.



As a client of
Prudential
Securities, you'll
benefit from a
one-to-one
relationship with
a knowledgeable
Financial Advisor
who can offer
objective
investment ideas,
timely research
and analysis, and
long-term
planning.



COMMAND clients benefit from free
ATM access and other privileges.

For complete information on COMMAND Money Market Funds including charges and expenses, obtain a prospectus using the number above. Please read it carefully before you invest. Keep in mind that the use of margin entails substantial risk. An investment in the money market fund is neither insured nor guaranteed by the U.S. government, and there is no assurance that the fund will be able to maintain a stable net asset value of one dollar. Prudential Securities, 199 Water Street, NY, NY 10292, www.prudential.com. Member SIPC.

INTERNET ADDRESS DIRECTORY

Reach these Business Week advertisers on the Web:

3M
www.3m.com
Acura
www.acura.com
Aetna
www.aetna.com
AIM Distributors
www.aimfunds.com
AMD
www.amd.com
American Century
www.americancentury.com
The American Institute
of Architects
www.aiaonline.com
American Isuzu Motors Inc.
www.isuzu.com
American Power Conversion
www.apcc.com
Arthur Andersen
www.ArthurAndersen.com
Andersen Consulting
www.ac.com
AT&T
www.att.com
Aurum Software
www.aurum.com
Chrysler
www.chryslercorp.com/
Cisco
www.cisco.com
The CIT Group
www.citgroup.com
Clarify
www.clarify.com
CNF Transportation Inc.
www.cnf.com
Comdisco
www.comdisco.com
Compaq
www.compaq.com
Compuware Corporation
www.compuware.com
Dale Carnegie Training
www.dale-carnegie.com

Dassault Falcon Jet
www.falconjet.com
DataWorks
www.dataworks.com
Datek Online
www.datek.com
Digital PC
www.windows.digital.com
Diners Club International
www.dinersclub.com
J.D. Edwards & Company
www.jdedwards.com
EMC
www.emc.com
Energy Cost Savings Council
www.plugin.org
Equitable/AXA
www.equitable.com
Ericsson
www.ericsson.se
E*TRADE
www.etrade.com
Exide Electronics
www.exide.com
Federal Express
www.fedex.com
FlexiInternational Software
www.flexi.com
Ford
www.ford.com/
Founders Growth Fund
www.founders.com
Fujitsu
www.fujitsu.com
Fujitsu PC Corporation
www.fujitsu-pc.com
Gateway 2000
www.gateway.com
General Motors
www.gm.com
General Motors-OnStar
www.onstar.com
GTE
www.gte.com

Hammermill
www.hammermillpaper.com
Hewlett-Packard
www.hp.com
Hilton Hotels & Resorts
www.hilton.com
Hoechst
www.hoechst.com
Honda
www.honda.com
Hyatt Hotels Corporation
www.hyatt.com
IBM
www.ibm.com
Infiniti
www.infiniti-usa.com
Intel
www.intel.com/
International Institute for
Management Development
www.imd.ch/
International Paper
www.ipaper.com
Invesco
www.invesco.com
Iomega
www.iomega.com
Kinko's Corporate
www.kinkos.com
Lawson Software
www.Lawson.com
Lexus
www.lexus.com
Lincoln-Mercury
www.lincolnmervcurv.com
Lotus
www.lotus.com
Lucent Technologies
www.lucent.com
Lufthansa
www.lufthansa-usa.com
MCI
www.mci.com
Mercedes-Benz
www.usa.mercedes-benz.com
Merrill Lynch
www.ml.com/
Microsoft
www.microsoft.com/
Mitsubishi Electronics
America, Inc./Electronic
Device Group
www.mitsubishichips.com
Mitsubishi Motor Sales
of America
www.mitsubcars.com

MOVADO
The Museum Watch
www.movado.com
Network Associates
www.nai.com
Nortel
www.nortel.com
Northrop Grumman
www.northgrum.com
Northwest Airlines
www.nwa.com
Novell
www.novell.com
Oracle Corporation
www.oracle.com
PeopleSoft
www.peoplesoft.com
Praxair
www.praxair.com
QAD Inc.
www.QAD.com
QUALCOMM
www.qualcomm.com/cdma
Roberts Express, Inc.
www.roberts.com
SAP
www.sap.com
SAS Institute
www.sas.com/
Savin
www.sales@savin.com
Charles Schwab
www.schwab.com
Seagate
www.seagate.com
Siemens Corporation
www.siemens.com
Siemens Microelectronics
www.smi.siemens.com
SkyTel
www.skytel.com
Sprint
www.sprint.com
StorageTek
www.storageitek.com
Sun Microsystems
www.sun.com

Sybase
www.sybase.com
Symantec
www.symantec.com
Symbios Logic
www.symbios.com/bw
Texas Instruments
www.ti.com
TIBCO
www.tibco.com
Tivoli
www.tivoli.com
Toshiba America
Information Systems
www.computers.toshiba.com
Toshiba Telecommunications
Systems Division
www.telecom.toshiba.com
Toyota in America
www.toyota.com/usa
Toyota Motor Corpote
Services
www.toyota.com/usa
Toyota Motors
www.toyota.com
T. Rowe Price
www.troweprice.com
Unisys
www.unisys.com
United Technologies
www.utc.com
UPS
www.ups.com
US Airways
www.usairways.com
USPS Priority Mail
USPS.supplies.gov
US Web
www.usweb.com
UUNET Technology
www.uu.net
Visio
www.visio.com
Xerox
www.xerox.com

BusinessWeek

www.businessweek.com

If knowledge is power,
this is omnipotence.

www.businessweek.com

BusinessWeek **ONLINE**

The Information Runway™



**Select a flight and
purchase a ticket from
your computer with
Northwest Airlines.**

We've taken travel planning to new heights of ease and convenience. Just hop on the Internet and jet over to WorldWeb, the Northwest Airlines web site at www.nwa.com.

You can review flight schedules, check availability, book a seat and even purchase a Northwest E-Ticket,* the convenient and paperless way to travel. With a few clicks of the mouse, you're ready to fly. It's that simple.

But don't stop there. Discover all the great ways in which WorldWeb can make your travel planning a breeze. Explore vacation ideas. Save money with exclusive CyberSaver® fares. Check your WorldPerks® account, book your award travel online and more.

Visit the web site named Most Innovative and Dynamic Site by *Inside Flyer International*. Prepare for takeoff at www.nwa.com.



**NORTHWEST
AIRLINES**

Some People Just Know How to Fly®

1-800-225-2525 / www.nwa.com

MUTUAL FUNDS

WHAT DREYFUS DIDN'T DIVULGE

A fund chief loaded up on Chromatics—a stock he owned

Michael L. Schonberg was a star. When he arrived at Dreyfus Corp. from the prestigious Omega Advisors Inc. hedge fund in August, 1995, he was on a rescue mission: to salvage the company's lackluster Strategic Growth and Premier Capital Growth funds. The funds' performance numbers were more than just bad. They were embarrassing. Both were managed by Dreyfus Chief Executive Howard Stein, who had proven far less adept at money management than at running a fund company.

But now, the 47-year-old Schonberg is no longer a star. His management of two small-cap stock funds—the Premier Aggressive Growth and Aggressive Growth funds—has been a disaster. In April, a money manager named Paul LaRocco was put in charge of the

Chromatics in his personal account—shares he had obtained at half-price a few months before he joined Dreyfus. His aggressive buying of Chromatics for Dreyfus helped support the stock's share price—to the point that, by late May, Schonberg had unrealized paper profits of 860% in his personal holdings.

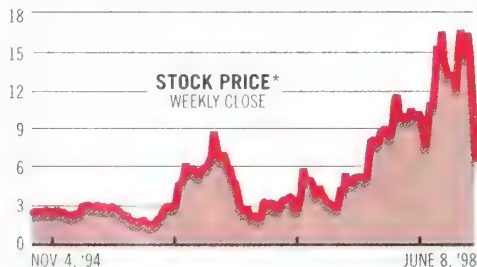
TROUBLING QUESTION. Schonberg's personal position in Chromatics, disclosed in the company's filings with the Securities & Exchange Commission, has troublesome implications for Dreyfus, now a Mellon Bank Corp. subsidiary with a squeaky-clean reputation. Dreyfus is standing by Schonberg, saying in a statement that though it is conducting its own "review of the facts" based on its knowledge to date, "Michael Schonberg has complied with Dreyfus' personal securities trading policies." Dreyfus called "baseless" allegations that Schonberg traded for personal gain. Schonberg did not return phone calls to his office.

In a sense, Dreyfus is right—Schonberg did no wrong by Dreyfus standards. A Dreyfus spokesperson says the company was informed of Schonberg's Chromatics holdings when he was hired by Dreyfus. But that raises a troubling question: Are Dreyfus' ethics policies sufficient to protect their investors? The two funds' prospectuses and recent disclosures contain not a word about

Schonberg's position in Chromatics—which he still holds in his personal portfolio—even though it tops the list of both funds' holdings.

In the past, the SEC has taken a dim view of conflicts of interest by fund managers. Late in 1995, the SEC fined an Invesco Inc. fund manager named John Kaweske for having traded, in his own account, shares held by Invesco. Kaweske neither admitted nor denied the charges. Kaweske allegedly did not

CHROMATICS COLOR: GRAVITY TAKES HOLD



*SHARE PRICE ADJUSTED FOR 3-FOR-2 STOCK SPLIT, FEB. 13, 1998
DATA: BLOOMBERG FINANCIAL MARKETS

funds, though Schonberg remains a portfolio manager. Again, Dreyfus has an embarrassment on its hands—but this time it isn't a simple case of crummy stock-picking.

Not long after Schonberg was hired by Dreyfus, he began aggressively buying for the funds a micro-cap stock called Chromatics Color Sciences International Inc. At the same time he was loading up on the stock for Dreyfus, Schonberg held 20,000 shares of Chro-

TARNISHED STAR

Schonberg was among a favored few to buy Chromatics stock cheap

disclose his personal stock position to his employers or his investors. That makes his situation different from other investors in Chromatics. But since his investments have been left in the dark, what are the implications for Dreyfus? The answer is far from clear. SEC rules require fund managers from buying securities they personally own—but the securities laws carry broad prohibitions on deceptive conduct. "Investors have a right to know the personal production of the persons in charge of investing money," says Melvyn I. Weiss, a prominent securities lawyer.

Chromatics' rendezvous with Dreyfus took place not long after the Kaweske case first hit the headlines in 1993. The New York-based Chromatics, which makes a skin-color monitoring medical and cosmetic uses, was taken public in February, 1993, by Invesco.



SCHONBERG AND CHROMATICS —A CHRONOLOGY

DECEMBER, 1994 Schonberg buys 20,000 shares of Chromatics at \$2.50 apiece in a private placement

AUGUST, 1995 Schonberg becomes portfolio manager of Dreyfus Aggressive Growth and Premier Aggressive Growth

JANUARY, 1996 Dreyfus reports that it holds 260,000 shares of Chromatics in its portfolios

MARCH, 1996 Dreyfus reports 155,000 Chromatics shares held by Premier Aggressive Growth alone

MAY, 1996 Chromatics registers the private placement stock with the SEC, allowing the shares to be freely traded

MARCH, 1998 Chromatics is now the largest holding of Aggressive Growth (397,500 shares) and second-largest holding of Premier Aggressive Growth (1.1 million shares), and Dreyfus is the fund's largest institutional shareholder

APRIL, 1998 Schonberg is replaced by Paul LaRocco as portfolio manager of the funds, but remains involved in investment decision-making

DATA: BUSINESS WEEK; COMPANY FILINGS

tes Inc., a brokerage that has been subject of numerous enforcement actions by regulators. Schonberg was added to Chromatics management by Peter W. Janssen, a partner at Janssen-Meyers Associates, a New York brokerage. According to Janssen, Schonberg became enthused about the fund and subsequently bought Chromatics for his employer at the time, Janssen-Meyers. Schonberg's enthusiasm brought reward accorded only the favored opportunity to get in on a stock deal.

Janssen-Meyers managed a private placement for Chromatics of 1.8 million shares in 1994 and 1995, Schonberg made part of the deal. Among the lucky investors were the Janssen-Meyers Associates. The price was \$2.50, or half the open-market price in December, 1994, when Janssen

says Schonberg bought the shares. The "cheap stock" generated in the offering could not be freely traded until the company registered it. That didn't happen until May, 1996.

Fortunately for Schonberg and his fellow cheap-stock investors, Chromatics performed nicely in the months ahead—and Schonberg's funds may have helped the stock in its climb. An SEC filing discloses that Dreyfus took a 260,000-share position in Chromatics by Jan. 24, 1996. At about the same time, Chromatics staged a rally. It ended 1995 trading at just \$4.25 a share. By the end of January, it was trading at more than \$10. Share prices declined a bit in the next couple of months, but they were always well above the \$2.50 a share Schonberg paid for his shares. In May, 1996, when the private placement shares were registered for sale, the stock had climbed

back to just over \$10. Although share prices then moved downward, evidently pushed lower by private placement shares and other cheap stock sold at instant profits, Chromatics never traded below \$7 in the next two months.

Chromatics share prices did not stay in the single digits for long—and Schonberg, wearing his portfolio manager hat, became its most enthusiastic buyer. As the months went on, the Chromatics stock position of his two funds grew to the point that Dreyfus became its largest institutional investor by early 1998. By last Mar. 31, the Premier Aggressive Growth fund held some 1.1 million shares of Chromatics, worth \$13.7 million, while the Aggressive Growth fund held 397,500 shares, worth \$4.9 million. Meanwhile, Chromatics shares climbed above \$17 in January, 1998—such strong performance that the company announced a 3-for-2 stock split in early February. Despite Chromatics, Schonberg's funds were horrendous performers, with Aggressive Growth falling 15.8% and Premier Aggressive dropping 13% in 1997. Year to date, they are down 18.5% and 13.5% respectively.

STRONG DENIAL. Chromatics stock itself has been in a state of near-collapse—and the company is blaming short-sellers. One major short in Chromatics has been outspoken in his attacks on the company. Manuel Asensio, a New York short-seller, asserted publicly on June 9 that the company is a fraud and its shares nearly worthless. The company did not return phone calls to its offices, but on June 9, Chromatics issued a statement strongly denying Asensio's allegations.

LaRocco, the new fund manager at Dreyfus, appears to be less bullish on the stock than his predecessor. In an SEC filing on June 8, Dreyfus disclosed that it had cut its Chromatics holdings roughly in half, to 780,000 shares. And Schonberg's private holdings? Schonberg isn't talking, but according to Dreyfus, he still is holding the stock. And despite a dramatic decline in the stock—encouraged by Asensio's public pronouncements and, perhaps, Dreyfus' dumping of the stock—it is still worth a heck of a lot more than he paid for it.

Even though Chromatics is down 50% in just a few weeks, Schonberg could still more than triple his money if he decides to cash in his Chromatics nest egg, now 30,000 shares because of the split. The stock now trades at about \$6—which would mean a gain of \$130,000. A nice piece of change. Too bad his investors haven't been quite so fortunate.

By Gary Weiss in New York

SECURITIES FIRMS

GOLDMAN SACHS PLAYS HAMLET

To go public or not to go public? The decision is wrenching

It's time to pull the trigger at Goldman, Sachs & Co. The private partnership, which was started in 1869 by a German-Jewish immigrant named Marcus Goldman, is expected to decide to go public on June 12-13 at its annual partners' meeting. If the 190 partners take the plunge, Goldman, which many say is Wall Street's most profitable and prestigious firm, will be fundamentally changed. It may lose its unique, close-knit, collegial culture—a key to its success—and become a more impersonal corporation, accountable to independent directors and public shareholders.

Yet Goldman may be more successful than its competitors in retaining crucial elements of its teamwork values. That's because in the past six months, its 190 partners have participated in a remarkable exercise in consensus-building about whether to go public. The process, much like a jury that ideally arrives at a unanimous verdict, has been carefully orchestrated by Jon S. Corzine, Goldman's co-chief executive. "He's not going to jam it on people. He's the real thing," says Robert E. Denham. Denham managed the fractious Salomon Inc. and also knows Corzine.

Not all Wall Street partnerships have taken this approach (table). Salomon Brothers is a notorious example. In 1981, Salomon decided to sell itself to Phibro Corp., a public company. The firm's five-man executive committee, headed by John H. Gutfreund, made the decision and presented it to Salomon's 63 partners as a done deal, say former partners. Many believe that the partners' abrupt, auto-

cratic cash-out destroyed Salomon's cohesive culture by ending the support of key employees.

A more recent comparison is Morgan Stanley, which went public in 1986. Morgan Stanley's management committee made an executive decision. After studying the issue, they decided that it was in the best interest of the firm to go public. In a matter of months, the issue was discussed and hashed out with the partners and a vote was taken, which was unanimous. Decisive leadership coupled with partner participation has served the

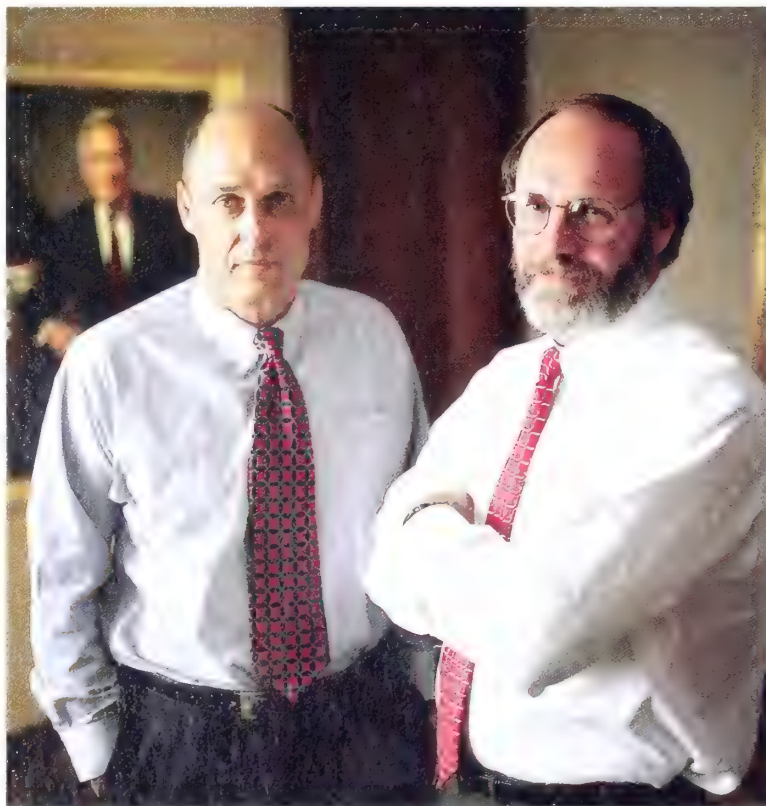
firm well. While its partnership culture has faded, Morgan Stanley has grown and prospered.

Corzine's management style has been to put aside his personal views and seek consensus—despite the fact that, as a top equity holder, he would make several hundred million dollars if Goldman goes public. In 1996, the last time the firm came close to considering going public, Corzine and the majority of the six-man executive committee were in favor of the move. Nonetheless, Corzine tabled the matter because the partnership sentiment was clearly to stay private.

This time, Corzine has had two more years to soft-sell his view. After the issue died in 1996, he set up two committees of 19 people each, made up

of the firm's movers and shakers. They included the operating committee, chaired by Herman M. Paulson Jr., and just became co-chief executive, and the partnership committee, which Corzine chaired. The two committees, called "OCPC" in Goldman jargon, met at the firm's headquarters in London in January 1998. They brainstormed on the issue and assigned subgroups to study each one, as the growth of rival firms.

CO-CHIEF EXECUTIVES
PAULSON AND CORZINE



PROS AND CONS. Surprisingly, Corzine's firm hasn't been the six-man executive committee. "The executive committee is more the decision-makers," says a partner. "Six guys can't make this work."

Corzine set the process by being available, along with the executive committee, to discuss the pros and cons of going public. Corzine and the partners spent time in London meeting with individual partners. And he has encouraged partners to be matter-of-factly about what is a very emotional issue and avoid personal disputes.

Partners have been encouraged to make their own minds

**ANDERSEN
CONSULTING:
Number one
in billings.**

Fortune Magazine, November 10, 1997

**DELOITTE
CONSULTING:**

**Number one in overall
client satisfaction.**

Among "Big Six" Systems Integrators, Computerworld, July 28, 1997

There are many ways to measure success.
Revenues is one. The strength of relationships is another.

At Deloitte Consulting, we're known more for our working style
than our size. And that's fine with us. More importantly,
it's fine with our clients. Because they've seen firsthand
that our style delivers substance.

Being flexible and collaborative, as opposed to rigid and arrogant,
gives us the ability to generate a tremendous degree
of employee buy-in to changes at hand.

Which helps us transfer the knowledge and skills
your people will need to get the best possible returns from
any new strategy or technology. And to keep those
improvements from unraveling after we leave.

For results you can count on today.
And build on tomorrow.

A very different approach. For very different results.

**Deloitte & Touche Consulting
Group**

study of the business environment over the next 10 years was prepared and circulated. One downside: not moving aggressively enough and "over-noodling...we are a little 'Ready, aim, aim, aim—do you want to have another meeting?—fire,'" says one partner.

Corzine also assigned J. Christopher Flowers, Goldman's financial-services investment banker, to conduct a series of presentations to the various committees. Flowers studied financial, governance, and cultural issues, such as how Goldman compares with its competitors, what the firm's valuation is, and what Goldman will look like in three years.

LIVELY DEBATE. The process led to an intense period in late May. On May 26, at a monthly partners' meeting, all 190 partners were conferenced in by video and phones. Paulson, who chaired yet another committee, reported its conclusion: The firm had to grow aggressively. Even though going public wasn't on the agenda, partners had a lively discussion about it. On the weekend of May 30, the operating and partnership committees recommended that the firm consider going public. And to bolster management, on June 1, Paulson was promoted to co-chief executive. The same day, Corzine addressed all of the firm's 11,400 employees by phone to assure them that a decision would be reached soon.

Contrast that with Salomon. The executive committee was empowered by the fact that it owned 30% to 40% of the firm—vs. Goldman's much more broadly dispersed ownership. Salomon's executive committee told its partners how much each would receive and made a one-hour presentation, followed by a unanimous vote by the partners, says former partner Michael Bloomberg in his recent book. "Essentially, there were partners who were greedy and wanted to get their money out," says a former Salomon partner. "Immediately after, the culture changed." Instead of training its own people, the firm hired lots of outsiders, and teamwork disappeared. "Everybody becomes a mercenary," says the ex-Salomon partner.

Goldman partners are undoubtedly worried about the same issues. But they are also worried about not doing the

deal. Without stock to make acquisitions, Goldman could no longer be a leader in its businesses in the future. Another concern is strengthening the firm's capital structure to prepare for a market downturn. Partners are worried about whether a partnership can manage such a big firm. Another concern is missing what may be a once-in-30-years' chance to cash out when market conditions are ideal. "This place is filled with lots of traders who say, 'Do it now,'" says one employee.

The prevailing sentiment among partners is to go public. But no formal poll

"We are a little 'Ready, aim, aim, aim—do you want to have another meeting?—fire,'" says a partner

and mystique. Sudden they are human."

Even if Corzine attracts enough votes, which must be more than a simple majority and will surely be more than unanimous, there are many knotty issues left. How to divvy up the firm's wealth is one. If Goldman sells for a multiple of 3.5 times book value of \$6.3 billion, it will be worth \$22

billion. Once it pays off its lenders, partners, and partners, it will be about \$15.7 billion left. Insiders say it is unlikely that this amount will be divided up solely among the 190 partners. Likely, some large amount, possibly

hundreds of millions of dollars, will be earmarked for managing the firms' nonpartner professionals. Ownership could be put far down in the organization, far beyond the 211 nonequity-owned managing directors. "You can't keep money at the top; it would destroy the place," says one partner insider.

Limited partners also be selected to in the one-time bonus. But several individuals who built the but are no longer ed partners will be out. "Steve Friedman, John Whitehead,

John Weinberg created this value do not stand to benefit," says one server, referring to former Goldman chief executives. And most of the man windfall will only be on initially. The partners and employees get stock will probably be unable to it immediately. When Morgan Stanley went public in 1986, partners were required to hold their stock for two

Perhaps the biggest reason for man to go public is that senior agers at Morgan Stanley and M. Lynch & Co. don't like the idea. "If they continue to keep talking it for 10 years," says Peter S. Karo who heads Morgan Stanley Deanter's institutional securities business. timately, Goldman's rivals may Corzine's best lobbyists.

By Leah Nathans Spiro in New York with Stanley Reed in London

Going Public: The Good, the Bad, and the Ugly

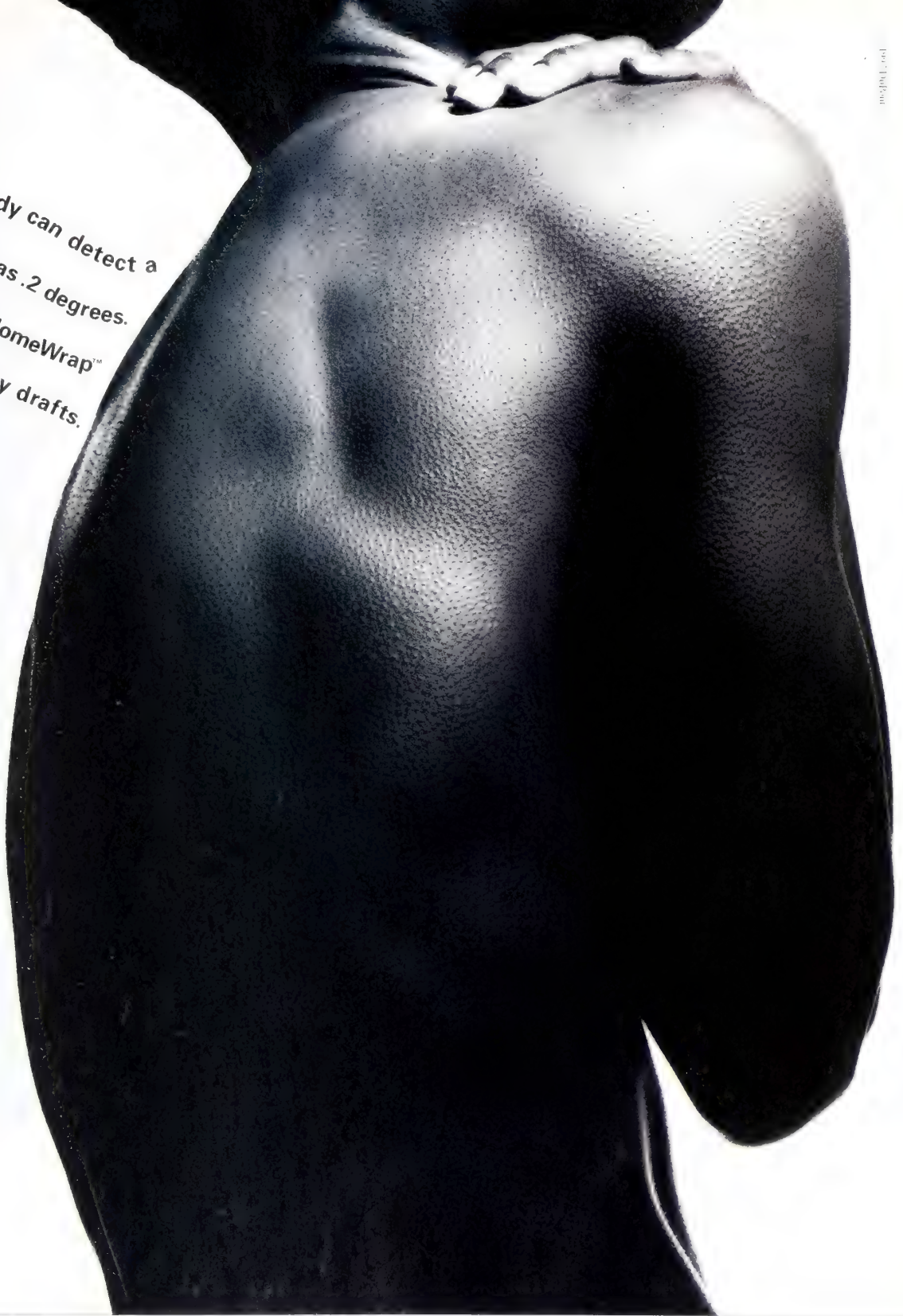
FIRM	DATE WENT PUBLIC	HOW WENT PUBLIC
MORGAN STANLEY	1986	Top managers decided it was in the best interests of the firm to go public. Partners signed on. Partnership culture faded, but firm has grown and prospered.
LEHMAN BROTHERS	1984	After harsh internal battles, partnership sold to Shearson, a unit of American Express. Result: It took years for Lehman to rebuild. Lehman went public in 1994 and has reestablished itself.
SALOMON BROTHERS	1981	Executive committee sold the firm to Phibro. Proceeds were divided among 63 partners, who only got a chance to rubber-stamp the decision. Several executives defected, weakening the firm and decreasing the remaining partners' loyalty. Now part of Citigroup.

DATA: BUSINESS WEEK

has been taken, and some of the most powerful and sophisticated partners are opposed, such as executive committee members John L. Thornton and John A. Thain. "They believe the firm can fight the tide in a consolidated world," says one Goldman employee. "There's no reason" to go public, says another. "It's not broken. What do we need to acquire?"

Partners also worry that as a public company, the firm will no longer attract the best and brightest. Goldman, which puts a huge emphasis on its people, can no longer say it is unique—the last major Wall Street partnership to reward excellence with membership in an elite club. Its new pitch could sound a lot like that of its big competitors. Says a Wall Street attorney: "It will lose a certain amount of cachet." And Goldman may find the press harder to control. Says another competitor: "They can create their own image

human body can detect a
change as tiny as .2 degrees.
Only DuPont Tyvek® HomeWrap™
keeps out chilly drafts.



www.dupont.com



Better things for better living.

Tyvek® is a DuPont registered trademark for its brand of housewrap. Only DuPont makes Tyvek®.

STOCK EXCHANGES

TRADING SMALL, TREADING WATER

If the few U.S. regional bourses don't merge, they could sink

Takeovers, mergers, and buyouts have been staples of nearly all industries—with a notable exception: securities exchanges. Not anymore.

On Mar. 13, the American Stock Exchange (Amex) agreed to combine with the National Association of Securities Dealers (NASD), which operates NASDAQ. And on June 9, Amex announced it would merge with the Philadelphia Stock Exchange, the nation's oldest, which had earlier rejected an unsolicited bid from the Chicago Board Options Exchange. Amex-NASD is after Philadelphia's

New York Stock Exchange (NYSE) is becoming ever more intense. While options trading has buoyed the Philadelphia and Pacific exchanges, a bear market could be lethal.

"These deals are a sign of the times," says William G. Morton Jr. of the Boston Stock Exchange, smallest of the regionals. "They send a message to the rest of us"—the same message all financial intermediaries are getting: Merge and cut costs.

Why? The Big Board's share of trades in NYSE-listed stocks has risen from 65% in 1992 to more than 74%

but the regionals have been most hurt. Trades by New York brokerage houses that normally would have been routed to the regional exchanges in exchange for services are now retained in New York. In fact, big Wall Street firms such as Merrill Lynch, Salomon Smith Barney, and, most recently, Paine Webber have pulled the plug on regional specialist operations—cause of arm-twisting by the NYSE, regional executives.

Morton and other regional executives say their exchanges serve a vital function of "keeping New York honest." Indeed, their low-cost trading facilities and willingness to offer order flow have let discount brokers wage ferocious price wars. Commission costs for retail investors have dropped below \$10. The smaller exchanges have also been quicker to innovate than the NYSE. The Cincinnati Stock Exchange, for example, went all-electronic in the 1970s—computers are in Chicago. President David Colker says this system makes

REGIONALS: DO THEY HAVE A FUTURE?

PLUSES

- The SEC has approved regional exchange programs that make business more profitable for members
- Option businesses at the Philadelphia and Pacific exchanges have been booming

MINUSES

- Regionals' share of NYSE-listed stock trades has dropped from 25% to 15% in the past five years
- Reduction in spread size to $\frac{1}{16}$ of a dollar cuts the regionals' margins by 35%

DATA: BUSINESS WEEK



AS THE PACIFIC'S TRADES SHRINK...

flourishing business in stock and index options, especially the Dell Computer option. That would increase Amex' share of the options market from 23% to 33%. If the deal goes through, it would be the first regional merger since Pittsburgh's bourse linked up with its cross-state rival 29 years ago.

MASKED. In exchange deals, as in most others these days, size matters. But the exchange mergers have a more urgent goal: survival. The five regional exchanges—Boston, Chicago, Cincinnati, Pacific, and Philadelphia—face serious long-term problems that are masked by the surging stock market. Their market share in equity trading is slipping, and competition from the



...PHILADELPHIA TIES UP WITH AMEX

his exchange the lowest-cost operator in the industry. "We've also viewed the regionals as significant competition," says Robert L. Dwyer, deputy director of market regulation at the Securities & Exchange Commission.

The trouble is that the NYSE spent more than \$1 billion in the decade improving its trading system. Staying ahead technologically is getting a lot more expensive.

Since nothing can apparently reverse this bull market, the regionals must just let the good times roll. But given the coming competitive squeeze, should plan for a more difficult future.

By Andrew Osterland in Chicago



There

are 29

bones

in the

human

face.

And 41

DuPont

safety

products

in cars.

© 1997 DuPont



www.dupont.com

Better things for better living

MUTUAL FUNDS

FIDELITY TAKES ON THE WORLD

Can the mutual-fund giant become a global powerhouse?

Barry Bateman, Fidelity International Ltd.'s president since 1991, is not one for modesty. Noting that there are two global brand names in consumer finance, Citibank and American Express, he argues there's room for one more. With demand for savings and investment products on the increase worldwide, "I would like the global mutual-fund brand to be Fidelity," says Bateman, an intense, 52-year-old Briton.

With \$50 billion under management—about what Fidelity Investments had in the U.S. in 1986—Bateman faces a tough time in Europe. Regulators in some Asian countries remain hostile to competition. And Fidelity's international funds must generate the heady returns of their U.S. cousins. This year, Fidelity also closed a discount broker in Britain after computer snafus led to a \$334,000 fine. But Bateman isn't fazed. Already a major force in British funds despite the brokerage foul-up, Fidelity sees the revolution promised by the euro as its entrée to the Continent. Despite a local ban on advertising funds, it sells through 30 banks in Taiwan. It's chasing market share in Japan, where deregulation and the problems of local financial institutions are opening doors.

Fidelity is trying to develop the model for marketing investment products globally. Targeting the top 6% to 10% of earners in countries it enters, Fidelity is selling a global line of funds to the growing ranks of middle-class consumers. To hold down costs, Bateman is pumping 20% of his annual revenues—he won't disclose the sum—into technology. Fidelity International, which is controlled

by Fidelity Investments' owner, Edward C. Johnson III but domiciled in Bermuda and run independently, has added almost \$14 billion in assets since last June. Bateman thinks the total could reach \$100 billion in three to five years.

TOWER OF BABEL. To see how Bateman is preparing for his global assault, visit a stone and glass building in Fidelity's 50-acre complex in the London suburb of Tonbridge. Banks of operators working at stations decorated with flags to denote their fluency in languages process applications and requests from around the world.

Bateman's global drive enjoys the full

support of Johnson, who has long put priority on expanding internationally. But many executives and salespeople have fallen victim to the impatience of Bateman and Johnson. Fidelity's current Hong Kong chief, Brett P. Gordin, is its sixth in less than a decade. An even bigger problem: While Fidelity Investments manages \$600 billion in the U.S., asset management is only becoming a global industry.

Still, Bateman can claim some victories. Some \$25 billion of Fidelity International's assets are in Britain, where it has become a force in corporate pension management. Fidelity trails only Merrill Lynch & Co.'s Mercury Asset Management among U.S.-owned managers in Europe. But it still ranks 30th in the industry at the end of 1999, according to Lipper Analytical Services Inc., the same level it held in 1998. While it aspires to the top five in many and France, where it began to dominate fund distribution, it has \$1.7 billion in retail assets in Germany and \$500 million in France. But recent data give Bateman reason to hope.

Fidelity International's European assets zoomed 49% last year, while such rivals as Deutsche Bank and Swiss Bank Corp. posted single-digit growth.

Asia's financial crisis has dimmed growth prospects there. Fidelity Funds South East Asia Index, for example, was down 51% by the year ended June 5, according to Lipper Analytical Services. But Fidelity has had better luck in Taiwan and plans to pour \$50 million into Japan, betting that investors, leery of tottering banks, will prefer to place their money with foreign firms. Fidelity markets through Nomura Securities Co. and Nikko Securities and has opened booths inside branches of Sumitomo Bank, Long Credit Bank of Japan, and Daiwa Bank. It has also set up a toll-free phone number and newspaper ads that proclaim a new era of investing arriving in Japan.

Bateman thinks Japan. Fidelity has about \$3 billion under management after 29 years of quiet existence, could see exponential growth in the few years. He would like to see the same worldwide. Fidelity's growth surge in the U.S. has given him plenty of cause for optimism.

By Stanley Reed in London with bureau reports



WHERE FIDELITY IS ON THE MOVE

JAPAN

Taking advantage of deregulation and the weakened condition of many banks to sell mutual funds and move into pension management.

AUSTRALIA

About to launch a joint marketing program with local partner aimed at retail investors.

EUROPE

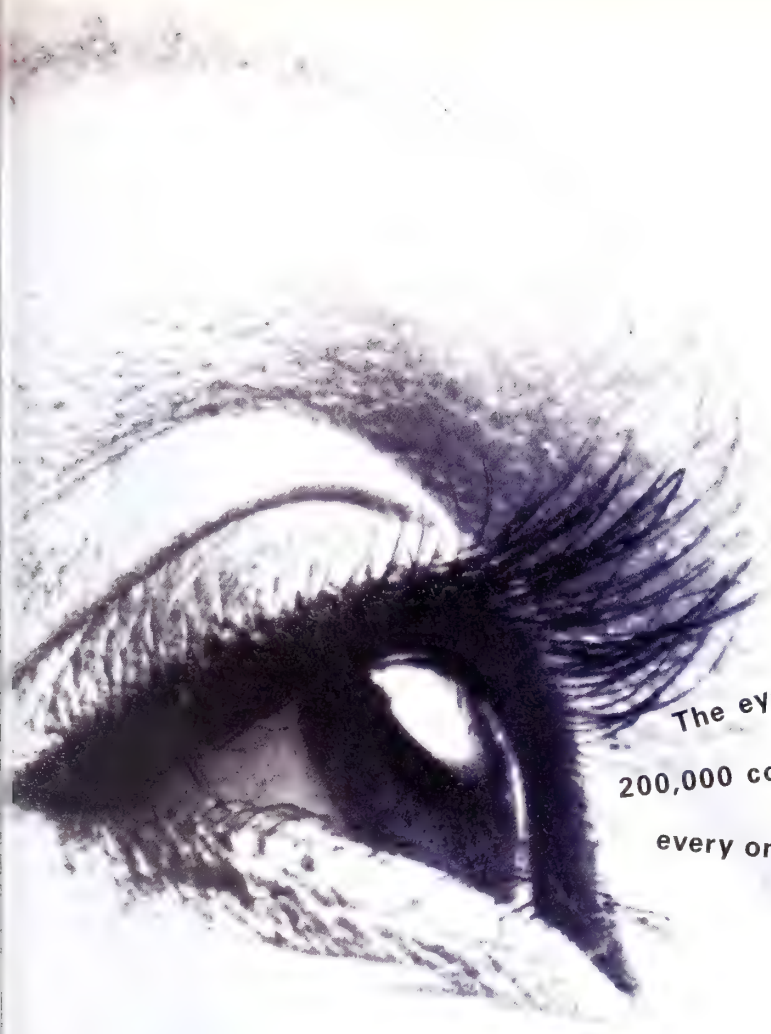
Targeting Germany through direct sales and other channels. Also pushing into France, Scandinavia, and Spain.

TAIWAN

A top priority because of a wealthy, aging population with few retirement safety nets.

BRITAIN

Already the nation's fourth-largest retail money manager, it's now challenging big local players in pension management.



The eye can detect
200,000 colors. DuPont can match
every one of them.



www.dupont.com



Better things for better living

PART #2138:

*No-Surprise Total
Cost of Ownership*



*For more information on our limited warranties, see our web site at www.fujitsu-pc.com

Fujitsu and the Fujitsu logo are registered trademarks and LifeBook is a trademark of Fujitsu Limited. Built for Humans and ErgoTrac are trademarks of Fujitsu PC Corporation. Intel and Pentium are registered trademarks and MMX is a trademark of Intel Corporation. Microsoft and Windows are registered trademarks of Microsoft Corporation. All other trademarks are property of their respective companies.

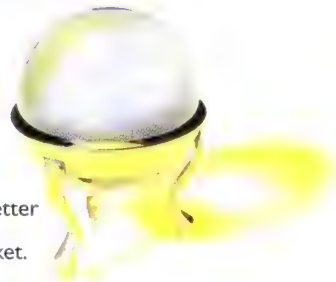
©1998 Fujitsu PC Corporation. All rights reserved.

FUJITSU

STORY #194:

My Wonderfully Predictable Future

LET'S just say you're the CEO of a large investment firm. You've got one eye on NASDAQ, one eye on Dow Jones and four hundred hands trying to grab the best stocks in both. You also know you have to face two hundred employees who want more money, better coffee, a parking place and notebooks that can handle a volatile market.



[*"Risk is okay in my line of work, but I sure don't need it from my notebooks,"*]

is your motto. And who can't use a little more predictability? That's why Fujitsu PC Corporation offers qualified customers LifeLine, our Lifecycle Management Program for select LifeBook™ notebooks. This unique program helps you control tomorrow's technology costs today—with options like technology upgrades, aggressive lease rates and optional warranties.* So no matter what wild ride your investments might take, you can be certain that the investment you made in Fujitsu notebooks will always be a sound one.

[*"Now we all get something we can use more of around here: security,"*]

LifeLine Lifecycle Management Options

Custom Configuration to Fit Each User Requirement
12-month Technology Refresh and Asset Management
Variable Levels of Support, Including 24-hour Turnaround*
and Screen Protection
Project Planning and Various Levels of Delivery

you might announce. And this is one "buy" order everyone can appreciate. Leading-edge technology, reliability and technical support. Plus the peace of mind helping you understand your cost of ownership. So maybe you'll never know which stocks will perform well in the future. But now you definitely know which notebook computer will.



There are millions of Fujitsu notebooks out there—each with a story of its own.

FUJITSU

FUJITSU PC CORPORATION

Built for Humans™

For more info, visit www.fujitsu-pc.com/ce
or call 1-888-4-ON-THE-GO.



BY GENE G. MARCIAL

HELPING ORGAN TRANSPLANTS TAKE

SangStat Medical (SANG) is not yet a household name. But it could become a lifesaver for people with transplants. SangStat makes a product that helps prevent the body from rejecting transplanted kidneys or livers. Such agents are called cyclosporines, and SangStat's version is expected to receive a patent soon—and get approval from the Food & Drug Administration

in three to six months. So say some big players who have been accumulating the stock.

SangStat stock, which fell from 41 last summer to 21 earlier this year, has snapped back lately, to 28. And some pros are betting that it's headed higher still. The reason: SangStat's drug, called SANG-35, is similar to Novartis' Neoral, now dominant in transplant care, according to a study presented in May to the American Society of Transplant Physicians. Merrill Lynch Capital Markets cites this report in a recent bullish report on SangStat.

"SANG-35 will offer an economical alternative to patients in this \$1.3 billion global market," says J. William Tanner, an analyst at Vector Securities International, a research and investment firm focusing solely on health care. If approved, "SANG-35 will be a big revenue generator," he adds.

SangStat has just bought the transplant business of France's Pasteur Mérieux Connaught, part of Rhône-Poulenc, to get a marketing base in Europe—which should help in promoting SANG-35.

SangStat has also developed a handheld device called CycloTech, which dispenses a precise dose of SANG-35. Tanner says this will enhance the drug's value, since CycloTech improves transplant results.

Tanner says the price of SANG-35 will be 25% less than Neoral. With rev-

enues of just \$4.5 million in 1997, SangStat should see \$34.1 million in 1998, \$122.3 million in 1999, and \$189 million in 2000, figures Tanner. Earnings in 1999 could hit \$1.51 a share and \$3.07 in 2000, he adds, compared with a loss in 1997 and 1998. Tanner thinks the stock price will hit 45 in a year.

VIATEL: A CHEAP TELEPHONE CALL

In late April, when the Dow Jones Industrial average dived more than 150 points, a lot of institutions went bargain hunting. One of the stocks bought heavily by Credit Suisse First Boston and Lehman Brothers was Viatel (VYTL), a little-known provider of long-distance services to small and mid-size businesses, mainly in Europe. One investor, George Soros, has a 7.6% stake. Fidelity owns 7.5%.

"It's one of the most undervalued bets in the deregulation of communications in Europe,"

says one money manager in New York, where Viatel is based. Then trading at around 7, the stock has since risen to 11. He notes that for a long-distance carrier with a market cap of just \$235 million in a \$70 billion global market, Viatel trades at a huge discount to its peers. He thinks

the stock will hit 40 in a couple of years.

Morgan Stanley Dean Witter analyst Stephanie Comfort, who projects that Viatel will produce revenues of \$128 million this year and \$318 million next, has a yearend price target of 18 for the stock. She figures Viatel will post earnings before interest and taxes (EBITDA) of \$15.1 million next year, vs. a loss of \$29 million in 1998. On a per-share basis, however, she says Viatel will be in the red through 2001 due to interest on its high-yield debt. By 2002, the analyst sees Viatel earning \$2.68 a share.

Viatel is building a fiber-optic network called Circe that would link its switch in Britain with switches in Belgium, France, Germany, and the Netherlands—thus creating one of Europe's first cross-border optics network.

TWO WAYS OF PLAYING THIS DUO

When TeleSpectrum World (TLSP) named Keith Alessi chairman and CEO in mid-March, stock zoomed from 3 to more than just a week. Alessi is seen as a no-sense boss: He's credited with turning around Jackson Hewitt, a tax-prep outfit, last year. Its stock soared from 5 at the start of 1997 to 60 in January, 1998, when it was acquired by Centant. Since Alessi took over TeleSpectrum, a telemarketer, its stock has risen to nearly 10.

But there's another way to play TeleSpectrum: through CRW Financial (CRWF), which provides fund transfers and cash advances to casinos. It owns 6.9 million shares—some 30% of TeleSpectrum. CRW stock trades at

"CRW should be regarded as a direct proxy for TeleSpectrum," says Mark Hollingsworth of Dominion Capital Advisors in Suffolk, Va. He figures the shares owned by CRW are worth about \$61 million, or 9% per CRW share.

Set to Join Hands and Sin

STOCK	JUNE 10 PRICE	52-WEEK HIGH	12-MO. TARGET
CRW FINANCIAL	5%	9%	
TELESPECTRUM	9%	17	

DATA: BLOOMBERG FINANCIAL MARKETS, BUSINESSWEEK

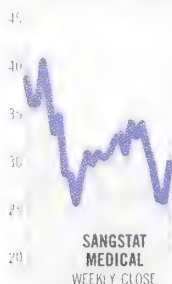
Hollingsworth is convinced that TeleSpectrum will soon take over CRW. Figures TeleSpectrum will have to pay about 9 for each CRW share, CRW Chairman and CEO Brian O'Neill—who was ex-CEO of TeleSpectrum—contends about 32.8%, which includes CRW's debt, so it would be simple for TeleSpectrum to cut a deal, says Hollingsworth.

Both CRW and TeleSpectrum are bound for higher ground, he predicts. Although Hollingsworth expects TeleSpectrum, which posted a loss last year, to lose money again this year, he predicts it will be in the black next year, earning 45¢ a share. He thinks the stock is worth at least 18. "Shareholders in both companies will end up winning," says Hollingsworth, who owns shares in both. CEO Alessi says the matter is being discussed and he would do anything that makes sense to shareholders.

BusinessWeek **ONLINE**

For more coverage of the market visit our Web site at businessweek.com

A NEW DRUG MAY BE A LIFESAVER



SANGSTAT MEDICAL WEEKLY CLOSE
▲ DOLLARS

DATA: BLOOMBERG FINANCIAL MARKETS

STILL GETTING WIRED UP



VIATEL STOCK PRICE WEEKLY CLOSE
▲ DOLLARS

DATA: BLOOMBERG FINANCIAL MARKETS



**BEFORE WE COULD BUILD
HARLEY-DAVIDSON'S
EXTRANET, WE NEEDED
TO GET A BETTER FEEL FOR
THEIR BUSINESS.**

*How do you cut a
warranty claims process from
three weeks to three days?
How do you use Microsoft's technology
to harness USWeb's expertise.*

Harley-Davidson® had 600 dealers and a huge paperwork headache to deal with. Warranty claims were taking too long and their dealers were paying the price.

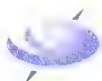
They could have chosen any number of companies to help them, but they came to USWeb. Why? Because of our strategic expertise, technical knowledge and proven track record. And our partnership with Microsoft,* a leader in Internet technology.

Together, we developed an Extranet that cut Harley-Davidson's warranty claims process from three weeks to three days. Now dealer satisfaction is up because Harley has given them another tool to improve the way they do business with the factory.

Harley-Davidson, Chevron, Polk Audio—these are just a few of the varied companies who've turned to USWeb to gain a competitive edge. And we can do the same for you. We provide custom business solutions—from strategic consulting to architecture planning through complete implementation. Whether it's for an Internet, Intranet or Extranet.

Learn how USWeb can be your strategic partner for the information age. Give us a call or visit our Web site.

For a free Intranet Planning Pak:
1-888-USWEB-411, EXT.72
www.usweb.com



USWEB™



Microsoft®

COMMENTARY

By Mike McNamee

THROWING OUT THE TAXES WITH THE TAXMAN

How would you like an interest-free loan from Uncle Sam for three or four years? Just underpay your taxes, then stall when the IRS starts dunning you. If it doesn't drag you into court within a year—a deadline it can't now meet—you will merely have to pay your delinquent taxes but not a penalty.

Sounds crazy. Yet that's just one of many tax-avoidance schemes unscrupulous financial advisers could hatch if an Internal Revenue Service overhaul now being completed by the House and Senate becomes law. And cheats would be pretty confident that they wouldn't get caught because the new IRS will have diverted so many of its people from auditing to customer service. Even the unlucky few to get nailed would receive a break: Congress would make the IRS prove guilt though taxpayers, who now must prove their innocence, control most of the evidence.

CHARM SCHOOL. IRS reform started out as a needed push for a friendlier, faster, and more efficient tax agency. Thankfully, the bill that's emerging will help streamline the agency and eliminate abuses unveiled in the Senate Finance Committee's sensational hearings. But it may go too far, and neither party seems willing to acknowledge that. Republicans can't deliver tax cuts to voters in time for the fall elections—so they'll bring them the head of the taxman instead. And President Clinton won't even think about a veto until his aides exhaust quiet negotiations to shrink the worst of the new loopholes.

The fact is new taxpayer "rights"—intended to protect innocent citizens—could create openings for cheats and handcuff the IRS's legitimate attempts to catch them. What's more, the bill's tab for sending the IRS to charm school—estimated at \$20 billion—vastly underestimates the damage to tax collections. That figure largely reflects penalties and interest the IRS would forgo un-

der the changes. It doesn't count revenues lost when the new loopholes are exploited. "These measures will diminish compliance with the tax law, and the honest taxpayer will end up even more disgusted," says former IRS Commissioner Donald C. Alexander, a Republican.

Consider protection for "innocent

But Mary's divorced sister might be so lucky. A high-paid divorcee who had let her low-earning husband handle the taxes might discover years later that she's still liable, because she earned the money.

Other reforms are easier to exploit. Congress wants to lessen IRS penalties, which can be overly punitive. A taxpayer who makes an in-

cent mistake might now be liable

for two years' interest on back taxes and a penalty because

takes the IRS so long to catch

errors. But the Senate bill

would effectively repeal fine

It says the IRS can't assess

penalties or interest unless

sends a taxpayer a legal notice

of underpayment within

year of the return's filing.

A 12-month deadline is a won-

thy target—but it's unrea-

listic: The IRS now needs

months to match 1040s with

W-2 and 1099 wage, interest,

and dividend reports.

"Hardly anyone will owe

penalty if this passes," says

Jeffrey S. Trinca, who

headed the staff of the Na-

tional Commission on Restructuring

the IRS, which Congress created to

propose reforms.

Reformers counter that credit-

card companies don't need 18 months to

figure out who has underpaid. But

Visa doesn't rely on customers to

calculate their own bills—and isn't

coing with an antiquated computer

system. Besides, by forcing the agency

to rewrite reams of code, while

struggling to fix its massive Year 2000

woes, the bill would probably cause

the wobbly IRS computers to crash.

The basic idea behind IRS reform

is sound: The tax collectors' assumption

that everybody is cheating needs to

change. Citizens will meet their tax

obligations more willingly if they

dealt with a responsive, efficient, and

service-oriented agency. But reformers

have to keep in mind that some

taxpayers do cheat—and many more

do so if this bill becomes law.

McNamee has covered the IRS reform debate from Washington.

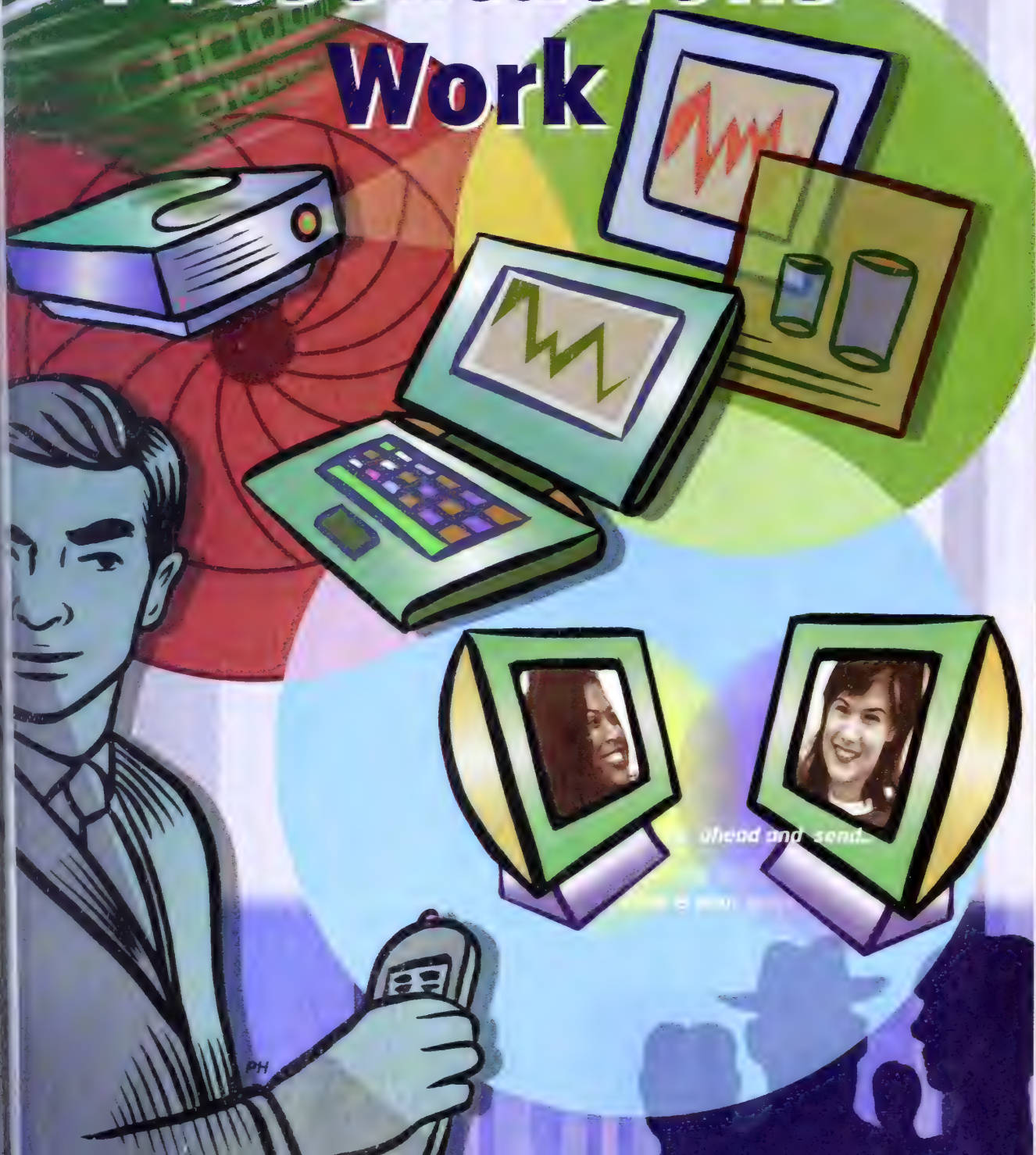


The danger in
radical IRS reforms
is that they may
encourage cheats

spouses." No doubt about it, the IRS has been heavy-handed in pursuing divorced spouses—usually women—who signed joint tax returns without knowing that their partners were cheating. To fix that, the Senate proposes to hold spouses—including those who are still married—responsible only for taxes due on their share of a joint-income statement.

Oops. Say Mary earns all the income and fills out the 1040 but puts all her assets in innocent Bill's hands. Under the Senate plan, Mary could cheat all she wants without fear of the IRS seizing the couple's property.

Making Presentations Work

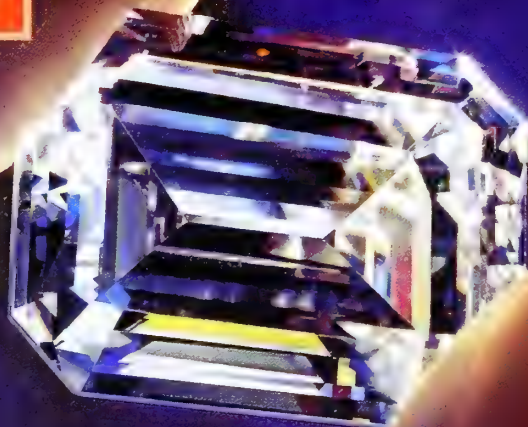


YOU'VE GOT TO SEE IT IN

EPSON

CCO

HOW SOMETHING
SO SMALL



CAN MAKE SUCH A
BIG IMPRESSION.

Gem Association Annual Sales Meeting

THE POWER TO ADD IMPACT TO ANY PRESENTATION

When you're looking to make your presentation sparkle, nothing dazzles an audience quite like an EPSON® high-performance projector. Using state-of-the-art technology, EPSON gives you the power to present your ideas anywhere, using virtually any kind of computer – even with the latest – for images that are as strikingly bright on the screen as they are on your computer. Just a lot bigger! All this, packed into a unit that's as easy to use as it is to carry. For extra confidence on the road, we offer quick technical help through our exclusive PrivateLine™. And if that help means getting a replacement projector, our Road Service Program can usually deliver one within 24 hours.

For a free video or more information on where to buy or rent, call 1-800-442-1977 and extension 3111, or visit our website at www.epson.com. You'll see why a presentation given with an EPSON projector, just wouldn't be as brilliant.

For More Information Circle Free Product Info.

PowerLite™ 5000XB



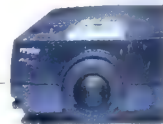
800 x 600 resolution,
750 lumens; 14.5 lbs.

PowerLite™ 7000XB



1024 x 768 resolution,
650 lumens; 14.7 lbs.

PowerLite™ 73



1024 x 768 resolution,
1200 lumens; 13.8 lbs.



Digital technology@WORK

What does it take to make you comfortable? If you're like most presenters, you want to have confidence in your support equipment, whether it's markers to be used on a flip chart, transparencies and the overhead projector that will display them, or the sound system that will carry your voice to your audience. And you want to have confidence in your material; that your content is current, accurate, and will make your points clear to your audience.

Digital technology stands ready to help you deliver effective presentations to any audience. Instead of waiting for slides to come back from film processing, you can create your own graphics on a notebook computer. Instead of relying on simple black and white overheads produced on a photocopier, you can add color to your materials in a variety of quick and easy ways. Instead of facing unknowns about the equipment and condition at the destination where you will present, lightweight products make it practical to take your presentation show on the road.

Computers and other digital products give you the ability to revise and update your presentation right up to the moment you step up to the podium. And make it easy for non-technical users to add images, sounds, and other high-impact support to their presentations. You'll be able to rehearse your talk any time, anywhere, using the same equipment that you'll use for the real presentation. Digital technology is changing the way American business makes presentations. Here are just a few of the ways it can work for you.

REDUCING THE TOTAL COST OF OWNERSHIP

philipslcd.com

When choosing a presentation projector, many buyers don't consider the operating costs of projectors, which can be an expensive oversight.

Most projectors use metal halide lamps, which typically cost \$3 to \$500 apiece, and are rated to last between 500 and 2,000 hours. This works out to \$0.2 to \$0.60 per hour of operation—just for the lamp. The rated lamp life is based on how long it takes the lamps to lose half their brightness. Many users don't realize that the light loss is most rapid in the early portion of the lamp's life, so you quickly end up with a projector that is not as bright as you bought it.

Philips Creative Display Solutions has addressed this problem by developing a new projector

lamp technology called Ultra High Performance, or UHP. The key benefit is that UHP lamps are rated to last two- to four-times longer than standard metal halide lamps of the same cost. In addition, the Philips lamps retain up to 75% of their original brightness by the end of their useful life, with a more gradual decline in light output than metal halide lamps. The UHP lamps are also more energy efficient, requiring less power and generating less heat.

With UHP lamps priced about the same as metal halide lamps of equivalent brightness, the lamp cost drops to \$0.12 to \$0.07 per hour—which can add up to significant savings over the life of the projector.

Most of the LCD projectors from Philips use UHP lamps rated for 4,000 hours of use. These

include the 800 by 600 resolution 4600 Impact model, and the new 1024 by 768 resolution 4750 Definition model. The 800 by 600 resolution 4600 Endurance mo-



The new Philips UHP projector lamp.

del's UHP lamp is rated for an amazing 8,000 hours of use—a major advantage in applications with heavy usage such as training or education.

Philips projectors also increase their value by being more versatile.



The Philips ProScreen 4600 features cost-saving UHP lamp technology.

LCD projectors are at their best when displaying images that have the same resolution as the projector. Most projectors also offer the ability to scale images up or down as required to match their resolution, though this can often lead to images with blotchy or broken text.

**Philips' UHP lamps
last two- to four-
times longer than
standard lamps.**

Philips developed LIMESCO (Line Memory SCan Converter) technology to improve the quality of scaled images. By averaging the contents of adjacent pixels, this circuitry is able to retain more information from the original image, resulting in a more legible display. This technology makes it practical to use one projector for a range of computers and laptops with different display resolutions, protecting your investment in older systems while maintaining compatibility with your newer, higher-resolution computers.

**21ST CENTURY
CAMERA OBSCURA**
www.toshiba.com/tacp

There you are, standing in front of a room filled with important people, making your pitch backed by a PowerPoint presentation on an LCD projector, when you're confronted by the impossible. The key member of your audience hands you a sheet of paper, saying "Here's a chart of the latest figures, and they seem to support your position. Why don't you show them to everyone?"

What do you do? Excuse yourself and run in search of a photocopier? Grab a portable scanner and scan the document into your computer, then edit the PowerPoint presentation to include it? Or just read it aloud?

There is another option, however. You could just place the sheet of paper on top of your projector, press a button, and an image of the page will appear instantly on the screen. You can do this, if you have the TLP-511

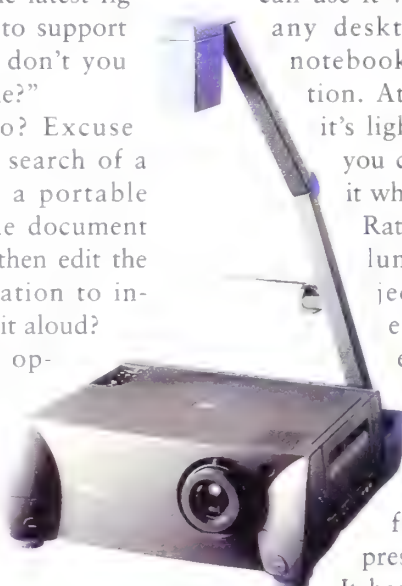
MediaStar projector from Toshiba America Consumer Products.

The key feature is the "visualizer" document camera that is mounted on a fold-away arm on the back of the projector. It includes its own fluorescent light for use in dim settings, and can switch to provide either a portrait or landscape view. The projector's remote control also lets you adjust the focus from a distance, and zoom in for a close-up.

The document camera is extremely versatile. Do you have traditional overhead projectors with transparencies that you want to display on a screen? Just place a white sheet of paper behind them on the projector – no need to add a bulky overhead projector to your setup. And what about displaying three-dimensional objects such as a prototype part? No problem; the document camera can display those as well – try doing that with an overhead projector!

The TLP-511 MediaStar projector has a 1024 by 768 resolution, and can handle signals up to 1280 by 1024 resolution so you can use it with just about any desktop computer, notebook, or workstation. At 17.6 pounds, it's light enough to move where you need it. Rated at 700 ANSI lumens, the projector is bright enough to be seen even with room lights turned on.

The projector is ready for multimedia presentations, too. It has both composite and S-video inputs for VCRs, video cameras, and DVD players. There



Toshiba's MediaStar projector with the "visualizer" document camera.

IN THE UNIVERSE OF PROJECTORS, THERE'S ONLY ONE THAT SHINES THE BRIGHTEST.

Introducing one of the most
ADVANCED PROJECTORS available on the market today,
PIONEER'S RVD-XG10.



800
ANSI Lumens

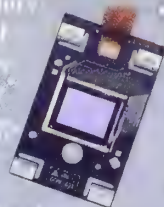
Pioneer's newly developed hi-brightness
LED and hi-efficiency polarizing pixels
are combined to produce unmatched
brightness, making it clearly visible
under normal room lighting situations.

True XGA
UXGA, SXGA, SVGA &
VGA Compatible

From the fully compatible XGA of 1,024 X 768
dots to the most advanced UXGA level of
1,600 X 1,200 dots, Pioneer's RVD-XG10 provides
the widest variety of resolution levels available.

DRI
Technology

Pioneer's proprietary
technology, DRI
(Digital Reflection
Imaging), is more
efficient at utilizing
lumens. This
advanced
technology makes it
possible for the RVD-XG10 to
achieve a variety of resolution levels.



PIONEER

The Art of Entertainment

For more information, please call
us at 1-800-527-3766 or visit us
at www.pioneerusa.com.

For More Information Circle Free Product Info No. 2

Beauty and Brains



Get the best of both worlds with the award-winning Philips ProScreen™ multimedia projector.

This little beauty has turned more than just a few heads. In fact, Business Week gave it a design excellence award. And it not only looks good, it will make you look great. Delivering the highest average brightness and the longest lamp life (burns up to 8 times longer than anyone else), this ProScreen multimedia projector outperforms all other LCD projectors on the market.

And it's smart... Thanks to LIMESCO technology, this ProScreen multimedia projector intuitively adapts to all resolutions from VGA up to USGA and all PC, Mac, and video standards without compression and without hassle, never leaving you with a blank screen. This is plug and play performance at its best.

See this award-winning projector up close.

Call us today at 800-504-9978 to receive a free demonstration or visit our website at <http://www.philipslcd.com>



PHILIPS

Let's make things better

For More Information Circle Free Product Info No. 3

Here are the latest figures. Why don't you show them to everyone?

eo audio jack for computer and sources, and separate left and right channel jacks for VCRs and other audio devices.

Toshiba also offers the TLP-MediaStar projector which has many of the same features as the TLP-511 including the document camera, but with a lower by 600 resolution.

Both are versatile presentation devices, designed to meet your display needs in a simple-to-use package.

PROJECTOR FOR ALL REASONS

sharp-usa.com

with computers is all about compromises. You can get that fire-breathing desktop system with unlimited capacity and power, or you can get a lightweight notebook



Sharp's Notevision3 projector is easy to move around.

costs just as much but does "Full-featured" peripherals to fall short on "ease of use". LCD projectors are usually portable or flexible – unless you have one like the Sharp Notevision3.

This projector weighs in at under 15 pounds, making it easy to move around. (And Sharp offers a wide range of carrying cases to make it a well-protected traveling companion.) It also has an international power supply that automatically adjusts itself to the local electricity, from 110 to 240 AC volts, at 50 to 60 Hz.

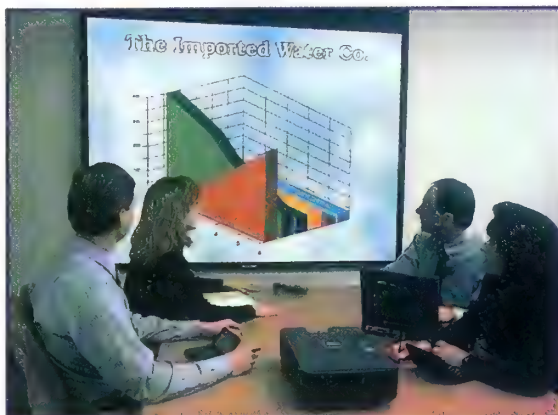
You'll also be able to make your own music on the road with the Notevision3; it has a pair of speakers backed by a 2-watt amplifier so you can fill your meeting room with stereo sound.

Some portable projectors are limited to just one set of inputs, which is fine for road shows where you're just relying on a single laptop, but for in-house applications, you may want a more versatile setup. The Notevision3 has two sets of RGB analog connectors, ready to connect with almost any computer or notebook you may have, along with separate stereo sound connections and remote mouse control for each computer. It has a 1024 by 768 (XGA) resolution, but is able to expand or compress signals ranging from 640 by 480 all the way up to 1280 by 1024 pixels.

The projector also has a pair of video inputs – a composite video RCA plug and an S-video jack, so you can connect anything from a VCR to a video camera – each with its own set of stereo sound inputs.

The full-featured remote with backlit buttons lets you control the projector from across the room, and operate your computer using the remote mouse feature. And instead of leaving you to fumble for a separate pointer, the remote has a

built-in laser pointer. If you want to install the projector behind a rear-projection screen, Sharp has you covered there as well. Not only can the image be reversed (as is the case



Sharp's Notevision3 lets you leave the room lights on.

with most projectors), the remote control also has a tether option so that you can wire it to the projector without the need for infra-red repeaters or remote receivers.

And whether you're on the road or at your home base, the Notevision3 with its 700 ANSI lumens rating is bright enough to let you leave the room lights on during your presentation. If you don't need the extra resolution, Sharp also offers the Notevision2 which has an 800 by 600 resolution rated at a bright 750 ANSI lumens, with the same features as the higher-resolution model.

So in a computer world filled with compromises, the toughest decision you may face when using a Sharp Notevision projector is whether to choose a donut or a danish at the coffee break.

A PRESENTATION IN YOUR POCKET

www.epson.com

Few products have caught the imagination of business and home users the way digital cameras have in recent years. But have you ever thought of the ways that a digital

camera can support your next presentation? Epson has. And their new PhotoPC 700 camera not only lets you take pictures to dis-

A new view on just how portable your presentations can be.

play, but you can leave your laptop in your office because this camera can also display your presentation – including images you create on your computer – on just about any television or projector.

The PhotoPC 700 is a full-featured camera that can take full color (24-bit) or black and white (grayscale) images at resolutions up to 1280 by 960 pixels. With glass optics and auto-focus, you get crisp shots that print and show well. A macro mode lets you focus as close as 4 inches, and a special panorama format creates 1280 by 480 resolution images. If you want more flexibility, the lens accepts standard 37mm wide angle and telephoto lenses for specific needs.

You can frame your shots using the traditional viewfinder, or you can use the 2-inch color LCD panel on the back for a “through the lens” view. The LCD panel also lets you view stored images, and you can erase any that you don’t want to make room for more shots.

The camera comes with 4MB of internal storage, which is sufficient for at least 5 images at highest resolution and best quality, or 39 standard VGA (640 by 480) images. You can also use removable CompactFlash memory cards that can be used to transfer the pictures to a computer, giving you essentially unlimited capacity.

The big news for presenters, however, is that you can also use the PhotoPC 700 to make presentations as well. It has a video output that lets it connect with any device that accepts a standard composite video signal, including most VCRs and projectors. You’re not limited to pictures taken with the camera, either; Epson’s Photo File Uploader software can convert presentations and images on your computer and upload them to the camera. If you store your presentations on CompactFlash cards, you can carry an entire collection of different presentations in your shirt pocket.

If you need to make a print of an image, you don’t need a computer for that either; the camera’s Direct Print software lets it send output directly to many Epson Stylus color ink jet printers.

The Epson PhotoPC 700 may give you a new view on just how portable your presentations can be.

NEW PROJECTOR REFLECTS WELL ON YOU

www.pioneerusa.com

The fact is, most presenters don’t really care much about what goes on inside their projector. They are more concerned with whether or not the image is produced accurately, and is bright enough to use under normal lighting conditions. But it’s also true that manufacturers are always seeking to develop new and improved technology to produce brighter and better images. And at Pioneer New Media Technologies, this search has led to a totally new type of projector.

Most projectors use small polysilicon active matrix LCD panels. These work by blocking or transmitting light that shines through

the panels. The problem is that too much of the light gets blocked. Some users notice a “screen door” effect with certain projectors where the image appears to be made up of tiny bricks. This is caused by the spaces between the liquid crystal cells, which do not transmit light.

Pioneer has taken a different approach; instead of shining light through an LCD panel, they have



A go-anywhere device that also happens to take great pictures, from Pioneer.

come up with a way to bounce light off the panel. They put a liquid crystal layer on top of a highly-polished metal layer, with all the switching elements located under that mirror. As a result, nearly all the light that is reflected through the liquid crystal layer continues unimpeded to the screen. The end result is a bright image without the screen door effect.

Pioneer calls this new technology Digital Reflective Imaging, DRI, and has already incorporated it in a new projector. The RVXG10 is an XGA resolution (1024 by 768) projector that can compress images up to 1600 by 1200 resolution. It is rated at a bright 800 ANSI lumens, and weighs a portable 18 pounds.

One additional advantage of this new DRI display technology is that it can be used to create higher-resolution panels. As the resolution increases with traditional transmissive panels, more light gets blocked because there are more borders between pixels. T-

POLYCOM.

Expanding

THE WORLD OF CONFERENCING.

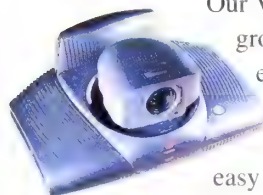
UNRIVALED AUDIO, DATA, AND VIDEOCONFERENCING FOR UNLIMITED POSSIBILITIES.

Polycom develops tools to break down the barriers that limit meetings. Our best-selling SoundStation® audioconferencing product family delivers unrivaled two-way



SoundStation Premier

communications and sound quality.



Our ViewStation™ group videoconferencing system makes business-quality video

easy to use—at a price that makes it an option for any meeting room. Our ShowStation® IP dataconferencing system lets you share nearly any type of information—electronic and hard copy—in local presentations or remotely through the Internet.



And every Polycom® product delivers

Clarity by Polycom™—



Clarity our
by POLYCOM promise of the

ShowStation IP

clearest communications and the power to make better decisions, faster. Visit us at www.polycom.com or call 1-800-POLYCOM.

For More Information Circle Free Product Info No. 4



POLYCOM®
Advanced Teleconferencing Solutions

Notevision3

unelevel the playing field™



NOTHING
WORSE than
PROJECTING
an outdated
IMAGE

to make sure you're projecting everything

So why not project the hottest image in the the business? With Notevision3, the look that's the envy of everyone's eye!

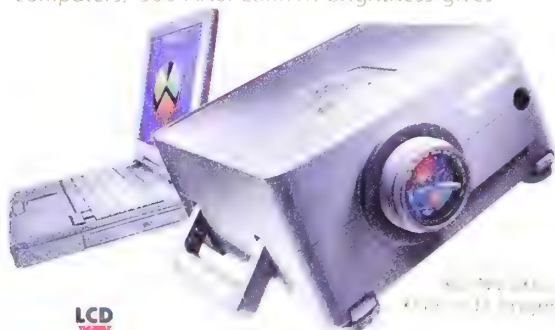
Our attractive new model has these trend-setting features: XGA Resolution, the cutting edge that's compatible with today's and tomorrow's computers. 600 ANSI Lumens brightness gives

your presentations' flair in fully-lit rooms. And because one size does not fit all, Sharp's Intelligent **imageACE** Resizing technology expands and compresses images automatically without sacrificing quality.

Notevision3 turns heads wherever you go, and since it's so compact and **"Thanks** wired for the world, you can take it anywhere business takes you **Notevision!"**

So give your presentations style with Sharp's Notevision3. And you'll look absolutely fabulous.

For More Information Circle Free Product Info No. 5



1 888 LCD SHARP / www.sharp-usa.com

SHARP®

FROM SHARP MINDS
COME SHARP PRODUCTS™

Portable Projectors • Conference Room Projectors • Direct View Monitors

neer DRI panels eliminate the
borders between cells, so there's
light loss with increased resolu-
tion. When the presentation mar-
kets need higher resolution projec-
tion, the DRI technology can
respond without losing brightness
on the screen.

STEP RIGHT UP! WAITING

www.polycom.com

How much time did you spend
preparing for your last presenta-
tion? Chances are good that it was
a quick meeting between you and
some of your colleagues, perhaps to
review the status of projects, or to
cover the details of a specific
proposal. The fact is that many
things happen on an ad hoc
basis, and you don't always have
time to prepare a formal presen-
tation. Instead, you may just grab
the latest draft of a proposal or a
spreadsheet of recent sales results
and head off to the meeting room.

For times like this,
you need a presen-
tation tool that
works



Polycom's ShowStation IP.

the way you
work. Polycom
recognizes that busi-
ness now relies on a mix of elec-
tronic files and paper documents to
convey information, and so they
have designed their ShowStation IP
to work the way you do.

The ShowStation IP has a high-
resolution color document camera
that lets you project sharp, detailed
images of paper documents just as
easily as you would show transpa-
rencies with an overhead projec-
tor. In fact, it's even easier, because
you don't have to convert your
pages to transparencies ahead of
time. If your documents are in elec-
tronic form, you can use them
directly on the ShowStation IP as
well, without a computer. Just put
your Microsoft Office 97 data file –
either Word, Excel, or PowerPoint
– on a floppy disk and the unit will
be able to display the data.

You can also work collabora-
tively using the ShowStation IP.
An electronic pen lets
you mark up the pro-
jected image, right on
the display screen for
everyone to see. Con-
nect a laser printer to
the unit, and you can
print the final image
with all the annota-
tions – no separate
computer required.

But what if not
everyone can make it
to the meeting? A sin-
gle user can simply
dial into the Show-
Station IP using a
computer and stan-
dard telephone line,
and see the projected
images on his or her
computer screen. If you have a local
area network in your office that
provides access to the Internet, mul-
tiple users can observe the images –
including all on-screen annotations
– using computers and standard
Web browsers. Remote users do not
need any special software to view
the images, and can connect from
just about anywhere.

The ShowStation IP is designed
to work the way you do, with the
kinds of information that you need

to present on a daily basis. It can
harness the power of the Internet
to involve remote participants easi-

**For times like
this, you need a
presentation tool
that supports the
way you work.**

ly. And it is a powerful, integrated
conference tool, for both local and
remote locations.



The Polycom ShowStation at work.

This supplement was prepared by Knowledge
Industry Publications, a subsidiary of Phillips
Business Information, Inc., publisher of
AV Video Multimedia Producer magazine.

Edited By: Alfred Poor

Designed By: Danielle Mickey

Cover Illustration By: Pamela Hobbs

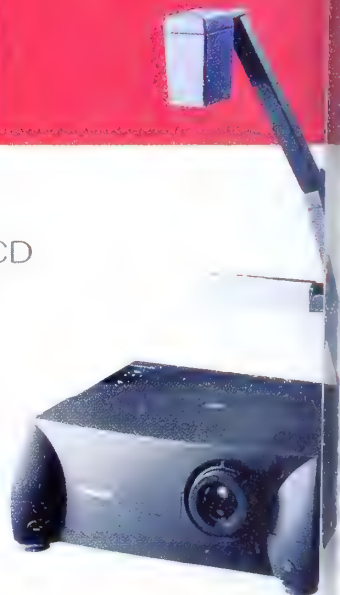
Managing Editor: Al Brownell

Editorial Offices: 701 Westchester Avenue,
White Plains, NY 10604



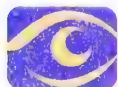
**TOSHIBA'S
ADVANCED TLP-511
3-D PROJECTOR
DRAMATICALLY
ENHANCES EVERY
IMAGE.**

INCLUDING YOUR



Let's face it. You are what you present. So enhance your presentation images with the advanced Toshiba TLP-511 LCD data projector. The only projector with true XGA 1024 x 768 resolution and a built-in 3-D camera.

This all-in-one projector allows you complete multi-media flexibility and ease of use. A new 700 ANSI lumens optical system provides sharp, vivid images even in brightly lit rooms. Vary your presentation message by projecting 3-D objects or hard copy documents using the built-in camera. Compatible to project laptop computer, VCR or DVD presentations. Because what you project reflects on you.



XGA 1024 x 768 RESOLUTION



3-D CAMERA



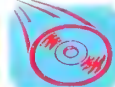
700 ANSI LUMENS



LAPTOP COMPATIBLE



VCR COMPATIBLE



DVD COMPATIBLE

In Touch with Tomorrow
TOSHIBA

Experience the Toshiba TLP-511 projector for yourself. Call **1.800.346.6666** for our free demonstration CD-ROM or for the location of the dealer nearest you. www.toshiba.com



THOROUGHBRED RACING

WANTED: MILBIRDS

thoroughbred racing tries to lure new fans and boost TV coverage

erly Reed, a 24-year-old auditor from Lilburn, Ga., considers herself a huge sports fan. She's tuned to the NBA finals series. But she's never tuned in to a horse race, not even the just-run Belmont Stakes, in which thoroughbred Real Quiet bid to win the first Triple Crown in 20 years. Nor has she considered betting money on horses, I'd guess.

It's just the image thoroughbred racing wants to shed. Plagued by a waning audience, the industry has launched a \$14 million advertising campaign aimed at young sports fans like Reed. A new organization bringing together jockeys, horse owners, breeders, and track owners—the National Thoroughbred Racing Assn.—has also been formed to promote the sport to a new generation of fans. But if the often-fractured industry is finally joining forces, sports marketers remain skeptical it will be enough to draw young women to the track. The burden falls on the shoulders of Tim Lister, who was anointed the sport's

commissioner in April. In addition to a TV and print-ad campaign, he plans to develop a series of races to get more TV coverage, develop sponsorships, create an education program to teach track neophytes the art of handicapping, and renovate the nation's parks to give the sport a fresh reputation. "There's a lot of potential fans out there," Smith says.

But capturing their attention won't be easy. Over the years, thoroughbred racing has lost its fans to casino gambling and state lotteries, while other sports such as basketball and auto racing used sponsorships and nationally televised events to attract fans. A 1997 survey by a horse racing trade group found a scant 0.4% of fans list horse racing as their favorite sport, compared with 36% citing football. TV ratings from Belmont weekend tell the tale: Despite heavy promotion of Real Quiet's potential to win the Triple Crown—and a heart-stopping photo-finish win by Victory

WILL THEY SAY 'AH'? New ads pitch racing to a younger generation

Gallop—the race drew just a 17% share of TV viewers. Later that weekend, Game 3 of the NBA finals drew 28%.

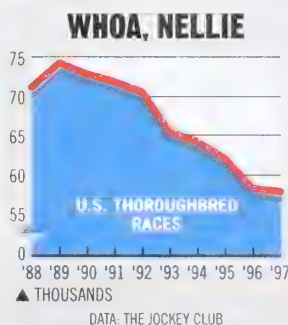
Smith says he can market horse racing into the hearts and minds of American sports fans. A former consultant for men's professional tennis and onetime COO of the Professional Golfers' Assn., he argues that the sport just needs "organizational structure" like the National Association for Stock Car Auto Racing or the National Basketball Assn. "Horse racing never had a fair chance," he says. To that end, about 53 of the nation's racetracks, 17 horseman's associations, and more than 200 breeders will contribute dues to fund the \$21 million operational budget. Tracks will pay a percentage of their daily handle. The budget is still tiny by sports standards. The PGA's budget is \$80 million.

WHERE'S THE BANG? Yet Smith's ambitious plans face stiff obstacles. He wants to get racing over 100 hours of national TV, in part by creating a series of events for top horses. That's not a bad idea, says Kevin O'Malley, senior vice-president for programming at Turner Sports. But "I don't think they'll ever get the kind of ratings that basketball or football have," he says. And simply adding more races won't do the trick, says Lesa Uzman, editor of Chicago-based *IEG Sponsorship Report*. "If they can't get fans to watch one race, I don't think saying 'now you can watch a series of races' will turn them around," she says.

Some big sponsors agree. The stigma of gambling—not to mention the difficulty of finding star personalities among nonhuman contestants—is daunting. "Frankly, it's just hard to understand where the bang for your buck is here," says David D'Alessandro, president and COO of John Hancock Mutual Life Insurance Co., a sponsor of the Olympic Games, U.S. Figure Skating, and World-wide Gymnastics.

Nevertheless, industry players are willing to make a bet on Smith, whom they describe as "diplomatic and innovative." Says Randall Sampson, owner of Canterbury Park track in Shakopee, Minn.: "I think we're finally beginning to see the end of a low cycle." Perhaps. But it still looks like a long shot.

By Nicole Harris in Atlanta



SOCCER

IT'S RONALDO'S WORLD

And the Cup matches may make him even more marketable

When soccer superstar Ronaldo visited the Vatican for a papal audience early in May, the first thing Pope John Paul II asked him was: "Are you Brazilian?" The 21-year-old striker, with his trademark shaved head and gapped-tooth smile, had presented the Holy Father with two jerseys—one from the Inter Milan team and another from the national Brazilian team. "Where do you play, son?" the Pope wondered. "I play in Italy, Father," Ronaldo said. The next day, all of Italy was abuzz with the news that the Pope might be the only person on the Continent who didn't know the answer to those questions.

After the World Cup, it's unlikely that there will be many people on the globe who don't know *il fenomeno*, as Ronaldo Luís Nazário de Lima is called. Ronaldo, who will play for Brazil, is expected to steal the show. He has already been likened to soccer legends Pelé and Diego Maradona. Soccer's governing body, FIFA (Fédération Internationale de Football Assn.), named him Player of the Year twice in a row, and by scoring 34 goals this past season, Ronaldo helped Inter clinch the UEFA Cup. (UEFA is the confederation of European leagues.)

NICE GUY. Ronaldo's electrifying performance has also triggered a boom in sponsorships and jacked up the sale of television rights and season tickets. Inter sold a record 46,754 season tickets this year for its 75,000-seat stadium. "Strength and intelligence are Ronaldo's biggest assets on and off the field," says Inter Chairman Massimo Moratti.

All of that helps explain why Moratti, an oil industrialist, paid \$30 million to

buy out Ronaldo's contract with Barcelona and why he is paying Brazil's latest wonder \$30 million over 10 years. That makes Ronaldo the highest-paid player in soccer history.

Although sports merchandising has been largely unexploited in Italy, 35,000 Ronaldo No. 10 shirts priced at \$70 each sold out within two weeks of introduction. And a booming black market in Ronaldo jerseys and souvenirs has sprung up.

Besides Ronaldo's record-breaking

deal with Inter, he makes an estimated \$5 million per year in endorsements. His sponsors include Nike, which has a 10-year, \$12 million contract with Milan and has a \$200 million deal with the Brazilian national team; Brazilian beermaker, Brahma; Italian milk company Parmalat; and tiremaker Pirelli, which owns 15% of the Inter team. **UP FROM NOWHERE.** What makes Ronaldo so marketable? Besides his phenomenal scoring ability, his spellbinding dribbling skills that make him seem like a samba dancer with a soccer ball. Ronaldo has nurtured a nice-guy image. He buys homes for members of his family and is often seen with his mother and his Brazilian girlfriend, Fabiana Pires, an actress/model dubbed "the Ronaldo" by the Italian press. He even took his mother along to meet the Pope. Ronaldo is also involved in social causes, such as a program in Brazil that gets poor children out of the streets and into soccer camps.

Ronaldo's up-from-the-streets image doesn't hurt either. He was born in a gritty district of Rio de Janeiro

and started playing soccer as a young boy with a local team. He quit because he couldn't afford the bus fare to the club. By 15, though, he was playing for minor teams and beginning to catch the attention of Europe. In 1994, club PSV Eindhoven was buying Ronaldo's extraordinary ability to score goals brought him to the Netherlands. From there, he spent a single season at Barcelona before his contract was bought out by Inter.

GOLDEN FEET

By the standards of the NBA or the NFL, Ronaldo is making journeyman money. But at some \$3 million a year, he is professional soccer's highest-paid player

Besides all that, the cameos of Ronaldo and his infectious smile in a Nike commercial made in time for the World Cup and broadcast internationally, Ronaldo is seen dribbling through the corridors of an airport. The spot ends with him taking his shot—a poignant play on Cup anxiety.

Ronaldo did court controversy in an ad for Pirelli tires. It showed him with his arms outstretched like Rio like the city's famous Redeemer statue. That probably wasn't too popular at the Vatican, but all seems to be forgiven. Hey, who knows, even in Brazil, they may be rooting for Ronaldo.

By Monica Lerner in Rio de Janeiro
Ian Katz in São Paulo





"Cassie? Just exactly how much is my per diem?"

Dexter Fedor, Field Sales Manager

Predictable monthly bills. Clear wireless calls.

Every big business struggles to keep costs predictable in an unpredictable world. So in addition to 100% digital call clarity, Sprint PCS has Flexible Business Plans and two new calling features designed to keep costs manageable. Home Rate USASM, included for no extra charge, eliminates roaming charges anytime, anywhere, on our nationwide network. And Toll-Free USASM, which gives you 1,000 minutes of clear wireless long-distance calls for an additional \$9.99 a month. To anywhere in the U.S. Anytime. Sprint PCS. The clear alternative to cellular.



1-888-509-6462 • www.sprintpcs.com/clear

Sprint PCSSM

Home Rate USASM and Toll-Free USASM may not be used in conjunction with certain other promotions or rate plans. Subject to business order approval and withdrawal without notice. Home Rate USASM and Toll-Free USASM do not apply when roaming off the Sprint PCS Network. Under Toll-Free USASM, long-distance minutes in excess of 1,000 (500 minutes for Southern California and Nevada subscribers) will be billed at \$10 a minute. Toll-Free USASM may be combined with Weekend or Off-Peak Option but will be billed at \$10 a minute. See Business Buyer's Guide materials for complete restrictions and limitations. ©2004 Sprint Communications Company L.P. All rights reserved. Sprint, Sprint PCS, Sprint Personal Communication Services and the diamond logo are trademarks of Sprint Communications Company L.P., used under license.

EDITED BY AMY DUNKIN

TAPPING THE SMALL-BIZ MOTHER LODE

Small business accounts for over half of U.S. gross domestic product. But if you've tried to invest in the sector, you've likely been let down because most small businesses are private. The smallest public companies make a poor proxy because they've trailed the broad market for 20 years, with average annual returns of 15.7%, vs. 17.4% for the Standard & Poor's 500-stock index.

So other than starting your own company, how can you play the small-business

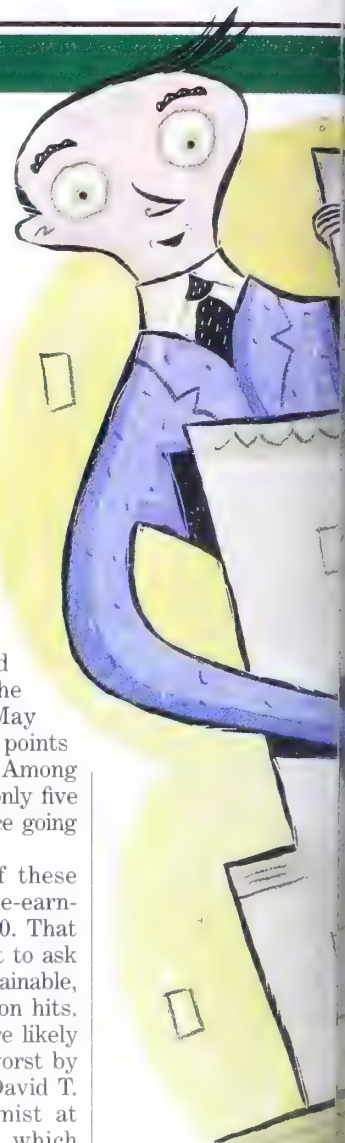
Some of Wall Street's heaviest hitters have caught on to the small-business game. They're snapping up shares in national companies that cater to the smallest outfits—those with 20 or fewer employees, which make up 90% of the sector. “Brand matters in that world,” says Brian D. Finn, a principal at Clayton, Dubilier & Rice, which controls the privately held Kinko's copying chain and has taken a \$270 million stake in U.S. Office Products, the publicly traded parent of Mail Boxes Etc.

that concentrated on a single industry or region.

We turned up 23 companies, including seven with lengthy track records. As a group, those seven veterans posted an annualized return of 30% for the five years ended May 29—eight percentage points better than the S&P. Among the 16 newer stocks, only five trailed the market since going public.

SOME PAIN. Some of these companies fetch price-earnings ratios of 40 to 50. That should make you want to ask if their growth is sustainable, especially if a recession hits. Small private firms are likely to be hurt first and worst by any downturn, says David T. Kresge, chief economist at Dun & Bradstreet, which maintains the world's biggest database on such companies. Eventually, he says, suppliers would feel the pain, too. Even in good times, says Randall E. Haase, manager of the Alliance Quasar Fund, some outsourcers that do relatively simple tasks will last only until clients figure out how to do the jobs themselves.

That's why it's essential to seek out companies that add value to a client's business. Take Rochester (N.Y.)-based Paychex, whose market cap is \$6 billion. Paychex thrives on small clients (the average size is 14 employees), and it does an essential task (payroll and benefits processing, notoriously complex and time-consuming). At 38, the stock sells for 48 times estimated fiscal '99 earnings. But Paychex has a long record of



growth, with earnings up every year since 1990.

What's the next Paychex? Haase has his eye on Paycom Business Services, which is gobbling up dozens of smaller rivals to create a one-stop shopping for accounting, payroll processing, human resources, information technology, and insurance. The Cleveland-based company is already ranked as the nation's 11th-largest provider of payroll services, operating in nearly every state, with 72,000 employees and estimated revenue of \$300 million this year. Its goal: \$1 billion by 2001.

Making all those take-home paychecks a high-risk game, it's a tried-and-true strategy for CEO Michael G. DeLoach, who became a small-business

INVESTING

Some big hitters are snapping up shares in companies that cater to small outfits

sector? One way is via larger public companies whose customers are mostly small, private ones. In today's hot economy, where small businesses are thriving, it's no surprise that companies serving this market of 22 million customers are also doing well. The group includes payroll processors, staffing agencies, and other outsourcers, plus specialty lenders and office superstores.

Investing in such companies has an advantage over direct ownership of a small business: diversity. Small outfits tend to fail more often than big ones. But a huge retailer such as Staples serves thousands of small businesses. If one goes belly-up, it's no tragedy—at least not for Staples' shareholders.

If you want to follow Clayton, Dubilier's example, you'll have to do some digging. There's no S&P industry group called “small business,” nor is there much agreement on just how big a small business can be. The only shortcut we found was a database from Zacks Investment Research. Called Research Marvel (www.zacks.com, \$150 per year), it zeroes in on federally licensed small-business investment companies. Beyond that, we screened Morningstar and Value Line for finance, business service, specialty retail, and business-information stocks. Then we slogged through company documents to pick out those that specifically say they cater to small and midsize companies, tossing back any

adding customers through a new Web site, kiosks at branches of Fleet Bank and Wal-Mart Stores, and his own string of acquisitions.

Buyouts hurt reported profits because of goodwill write-offs. But on a cash

ing plays are specialty lenders, such as Allied Capital, based in Washington, and Sirrom Capital, based in Nashville. They borrow cheaply and lend at double-digit rates. On top of that, they get equity "kickers" in the form of warrants, options, or shares. Allied, for instance, has a piece of Gibson Guitar, while Sirrom took a stake in Wolfgang Puck Food, the celebrity chef's cafe and frozen food outfit. Lenders carry the kickers at original cost until the borrower goes public or gets bought out. The result is a store of hidden value that doesn't show up on the balance sheet. How much? Who knows, says Allied Senior Vice-President Suzanne V. Sparrow: "It's not only hidden from you, it's hidden from us."

Allied says it deals in more established companies, which helps it maintain a 5.75% annual dividend. Sirrom goes for a broader portfolio of smaller high-growth service companies that banks might not touch. Sirrom acknowledges that more of its deals might go belly-up, but CFO Carl W. Stratton figures geographic and economic diversity—along with the equity kickers—will more than make up for possible losses. So far, the strategy has worked; earnings have risen steadily since the stock's '95 debut and annualized returns have topped 70%. "They underpromise and overdeliver," says Arden C. Armstrong, manager of MAS Midcap Growth Fund.

Sirrom is not for the squeamish. It's a favorite with momentum investors and short-sellers, and even some admirers ask how well the loan portfolio will hold up in a weaker economy. That's worth pondering for all these stocks. But with no recession in sight, the big names in small business have more room to grow. *Rick Green*

can't do it all. New England Business Service, for example, has carved out a niche by selling customized business forms. Chairman Robert J. Murray, a former top Gillette executive, says NEBS has a killer mailing list with 1.5 million clients. He's

basis, Wall Street expects NEBS earnings to rise to \$2.50 in fiscal '99, up from \$2 this year and \$1 in '96. That's one reason NEBS is a pick of Michael Maloney, partner at top-performing Skyline Special Equities Fund. He figures the shares, now 33, should hit 42 next year.

Perhaps the most intriguing

Big Names in Small Business

COMPANY	RECENT PRICE*	P/E RATIO	EARNINGS GROWTH**	RETURN ON EQUITY
PAYCHEX (PAYX)	\$38	49	26%	34%
ALLIED CAPITAL (ALLC)	25	14	18	15
CENTURY BUSINESS SVCS. (CBIZ)	18	27	45	10
NEW ENGLAND BUSINESS (NEB)	32	16	16	24
SIRROM CAPITAL (SIR)	25	15	24	24

*Jun. 8 **Fiscal 1999

DATA: ZACKS INVESTMENT RESEARCH, BLOOMBERG FINANCIAL MARKETS

legend by a tiny Canadian bus into the giant Laidisportation empire more than 600 acquisitions. This is not dissimilar to DeGroote. "I know what I know and don't know." A less than stellar stint at Republic Industries and a 1993 run-in with securities regulators—without DeGroote admitting wrongdoing—apparently haven't dulled his century's stock, which rose 2 in 1996, is now at \$20.50. Donaldson, Jenrette expects it to rise 6 within 12 months. The big beneficiaries of business growth include superstores, led by OfficeMax, and superstores



COMMENTARY

By Christopher Farrell

WHY STOCKS AREN'T A WILD BET

Call it the baby-boomer retirement mantra: Stocks are for the long haul. Many boomers believe that over time, equities offer better returns—with less risk—than bonds. The talk on Wall Street is that this conviction, combined with demographics, helps explain the stock market's remarkable performance and why it may still have a way to run.

One sign of this conviction may be the sharp narrowing in the so-called equity risk premium. Investors typically demand a higher return over time to compensate for the risk of owning stock, which represents a bet on entrepreneurship, vs. bonds, which are contracts that spell out when borrowers must make principal and interest payments. One way to measure the equity risk premium is to look at the difference between returns on stocks and bonds. Since 1946, stocks

have returned about 6 percentage points more than debt, in real terms. Since the bull market began in 1982, stocks have had an average real return of some 13%, vs. almost 10% for bonds.

BRAWNY BONDS. But the narrowing equity premium largely reflects a strong bond market. Bonds do well when inflation is low and investors are confident they will get their money back. The equity premium has been slim during earli-

er periods of stable prices. For instance, it was a mere 1.9% a year from 1816 to 1870, and 2.8% annually from 1871 to 1925.

Perhaps even more important, the stock market is at nosebleed levels because investors believe there is more good news to come, not because they believe equities are no

in 1964, a year well into an expansion and boasting a high market p-e, the average five-year growth rate of the top 20 companies in the S&P was 8%. Auto, oil, and other industrial heavyweights held sway. The comparable growth figure today is 16%, and the list is dominated by companies that use knowledge and

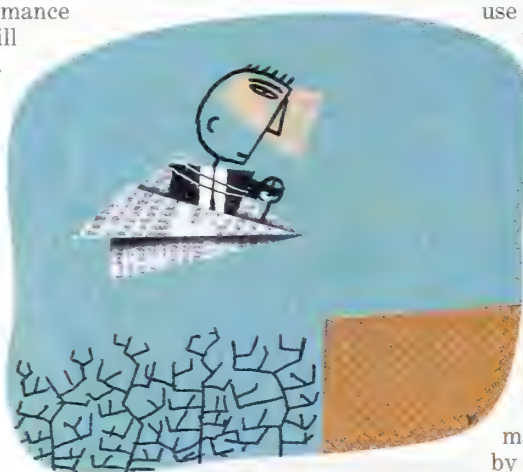
technology, rather than oil and steel. Says Jeremy Siegal, professor of finance at the Wharton School: "Perhaps investors are right to put high p-e's on these companies, which are at the leading edge of the global economy."

Even with the market dominated by thriving new industries, stocks remain riskier than bonds. Recessions are part of a capitalist economy. When one arrives, bondholders will still have first dibs on cash flows, and equity holders will bear the brunt of losses. Warns Ivan

Stux, a quantitative analyst at Morgan Stanley Dean Witter: "The next time the economy hits a cyclical downturn, the naked truth of equity risk will be facing us."

Still, with the economy strong and recession a distant concern, investors are making a reasonable bet on stocks. It has little to do with the notion that equities are riskless.

Farrell covers economics from Minnesota.



Buy Stocks, Earn a Premium

INVESTMENT	REAL AVERAGE ANNUAL RETURN JAN. 1926-MAY 1998	
	STANDARD & POOR'S 500	7.8%
	LONG-TERM U.S. TREASURY BONDS	2.1
	30-DAY U.S. TREASURY BILLS	0.7

DATA: EBBERTSON ASSOCIATES

riskier than bonds over the long haul. Investors are thus making a risky bet on stocks. But it's far from a crazy one, even with a 26 price-earnings ratio on the Standard & Poor's 500-stock index.

The market's gains have been largely fueled by an enormous surge in corporate profits, quiescent inflation, and the spread of capitalism worldwide. The high p-e ratio also reflects the changing makeup of the S&P 500. For example,

FUND WATCH

HARD LESSON. As manager of Govett Small Companies Fund, Carrett Van Wagoner took an annual return of over 51% from 1982 to 1995. He then lost the Van Wagoner Emerging Growth Fund. In a solid 1996, it plunged more than 20% in 1996, even as the broad market jumped more than 10%. Van Wagoner says he failed to understand punishing the small market could be. T. Avant! Corp., an engineering-software company denies.

Chastened, Van Wagoner vows to diversify better by holding 115 stocks. He had the portfolio from 1965 issues after the stock plunge, but he sees that move as a complete misjudgment. Avant! remains in the fund because he thinks profits will swiftly rise though its legal woes take years to resolve. \$275 million flagships also owns CHS Electronics, a distributor of computer gear; hospital software maker HBO; and Global Industries, a builder of ocean oil rigs.

Emerging Growth 7.9% through June. Better than average but an also-ran. Says Van Wagoner: "Our results have gotten substantially better, and I hope to trend. Believe me."

Robert

For an expanded version: www.businessweek.com or AOL, keyword: B



Ts FOR BOLD

ing for under-
d stocks in
s bull market
quixotic. But

a group is catching
of some value play-
attered-
mortgage

REAL ESTATE

e investment trusts.
than buying build-
REITs buy securi-
ed by pools of resi-
and commercial
loans. An oversup-
ortgage REIT initial
erings, and the fail-
me of them to pro-
r projected returns,
oined with unease
direction of interest
end the Bloomberg
rtgage Index down
n 26% from a year
h a whole industry
l out like this, you
n well that out of
so companies out
ome know what
ping," says John E.
of Crabbe Huson

Real Estate Investment
Fund.

If you're tempted to join
Maack in his hunt for value,
tread carefully. Yields of 9%
to 12% on some of these
REITs are seductive. That's
one reason why individuals
have snapped up
many recent
mortgage REIT IPOs. But in-
stitutional players, noting
how the hard-to-value stocks
tend to decline after their
IPOs, are holding back. Even
Maack has yet to find a stock
he wants to buy. "It's easy
to figure out possible re-
wards," he says, "but harder
to assess risks."

POOL PROBLEMS. Mortgage
REITs are far from a generic
bunch. Some target ad-
justable-rate or fixed-rate re-
sidential mortgages. But a
new focus is emerging. Like
residential loans, many com-
mercial mortgages are now
being packaged in pools and
sliced by Wall Street into in-
terest-rate-bearing com-
mercial mortgage-backed se-

curities (CMBS). RE-
ITs that buy CMBS
deals face differ-
ent risks than
do residential
players. Be-

cause of the nature of these
securities, and the way the
REITs finance and leverage
them, it's very hard to
assess credit and in-
terest-rate risks.

Commercial mort-
gage REITs may own
a mix of mortgage
loans, including non-
investment-grade por-
tions of CMBS deals.
Many loans have pre-
payment penalties
that give investors
some protection
against getting prin-
cipal back too soon if
rates keep falling. But
rising rates could
mean falling income
for some REITs, since
they finance purchases of
longer-term, high-yield se-
curities with short-term bor-
rowings at lower rates.

Mortgage REITs
are volatile. In 1996,
the group returned
50.9%, compared
with 35.7% for all
REITs tracked by the
National Association of Real Estate In-
vestment Trusts. But
in 1997, they were
up 3.8%, compared
with 18.9% for all
REITs. Year-to-date,
the all-REIT index is
down about 5%;
mortgage REITs,
which have fallen
much farther than
the all-REIT index in
the past 12 months,
are down 1.75%.

Mortgage REITs
also have a check-
ered past. In the
1970s, highly lever-
aged mortgage REITs
made a load of con-
struction and devel-
opment loans at the
top of the real estate

cycle. When real estate
cratered, the loans—and the
REITs—blew up. Today's
mortgage REITs are investing
more in the loans of existing
buildings. But some of the
REITs, such as Ocwen Asset
Investment Corp., plan to in-
vest in construction loans.

Most new mortgage REITs
are externally administered,
with the adviser motivated
primarily by fees. Manage-
ment fees often are based on
the size of average invested
assets, so managers are re-
warded for piling up assets.
Mike Kirby, an analyst with
Green Street Advisors in
Newport Beach, Calif., prefers
the structure of Capital Trust,
a self-managed, non-REIT
mortgage investment firm
whose top executives own
about a third of the stock.
"When they place a bet,
they're putting their own
chips on the table," he says.

FEE REWARDS. Another
structure that ties perfor-
mance to profitability is one
whose management fees are
based on the average size of
stockholder's equity. That's
the case at Clarion Commer-
cial Holdings, which went

Risks in Mortgage REITs

*The new breed of mortgage REITs
invest in pools of commercial real
estate loans that are packaged
together and turned into securities.*

Here are some of their risks:

INTEREST RATE RISK These REITs often
rely on short-term borrowings to
finance purchases of commercial mort-
gage securities that have far longer
maturities. If short-term interest rates
rise, a REIT's income could shrink.

INVESTMENT RISK A REIT may own
noninvestment-grade mortgage-backed
securities. These may be subject to
greater losses of principal and interest
than investments in better-quality
securities or mortgages themselves.

CREDIT RISK If the economy and real
estate market slow, defaults may
become an issue, especially for REITs
that make construction loans.

public May 28. But it and many other REITs also have incentive fees to reward managers for good performance. REITs argue that this helps combat any urge to pile on assets. But Clarion's prospectus notes that such performance fees "may create an incentive" for managers to recommend riskier, speculative high-yield investments."

If you're still ready to

take the plunge, EVEREN Securities Inc. analyst Thomas J. Maier maintains that there are "real bargains" today. He has reason to be bullish—his firm has been an underwriter of many mortgage REITs. He likes residential REIT Impac Mortgage Holdings. "In addition to having a portfolio and the ability to manage it, they have a mortgage origination arm so they can benefit from prepayments,"

while REITs who lack such arms suffer from prepayments, he says. Among commercial players, he likes its sister company, Impac Commercial Holdings, as well as Ocwen Asset Investment—the latter a choice not universally shared. "They raised money, but they've been a little slow putting it to work," says Greg Eisen, who owned Ocwen in the SAFECO Small Company Stock Fund,

but sold it in May. "Competition is tough what they want to do the risky, high-yielding of real estate loans."

If you're tempted by a mortgage REIT, read the factors in its prospectus. You understand the risks still want to invest, you'll garner some tidy yields. Don't be shocked if you chase gives you a few less nights. *Suzanne*

PORSCHE REVAMPS A RACEHORSE

Slow-moving cars scuttled out of the way as I screamed down the autobahn at 150 mph in the redesigned version of one of the world's classic sports cars, the Porsche 911. Even at that heady tempo, I was gliding along as smoothly as if I were riding on welded steel rails.

Porsche's first ground-up redesign of the 911 in 34 years is a masterwork. The \$65,700 rear-engine speedster retains its distinctive shape, only with flatter, more aerodynamic lines. Gone are the air-cooled engine and pedals that sprout from the floor, à la vintage Volkswagen Beetles. What remains is a car that is almost without peer for fast, sure-footed driving.

The 911's first-ever water-cooled six-cylinder power plant has ample oomph. The 300-horsepower engine launches the two-seater to 60 mph in just over 5 seconds. Top speed is 175 mph. Minus the big cooling fans of the old model, the engine is far quieter at low speeds. But stomp the throttle and it emits a gleeful

scream as the tachometer nears the 7,300 RPM redline.

A six-speed manual transmission is standard. For an extra \$3,100 you can get a new five-speed version of Porsche's Tiptronic automatic with switches on the spokes of the steering wheel that let you change gears at the flick of a finger. The car's antilock brakes are exemplary, bringing you to a stop from 100 mph in four seconds.

BAG SPACE. The 911's handling is more refined than ever. Zinging down curvy country roads is an absolute joy. Inside, the new 911 is both more stylish and functional than its predecessor. Its standard leather seats are firm but comfortable, with plenty of lateral support.

Front and side airbags are standard. And passengers have more room. But the backseat, though still too cramped for anyone but children or small adults, offers more space for luggage. That's important, because the storage space under the hood handles only a couple of soft overnight bags.

As in the Boxster, the 911's smaller cousin, the main instrument panel combines an old-style analog tachometer and a digital speedometer. They're both easy to read. I was disappointed, however, by the optional integrated navigation and sound system that gives spoken directions. It runs a stiff \$3,500, and only a techie could love its confusion of buttons and dials. The navigation function is also mad-deningly unreliable—it directed

me to a street that was closed, for instance.

Sun worshippers might consider the new 911's convertible. Its cloths behind the rear seats the touch of a dashboard button. It can also be air from a distance by a mounted radio transmitter. The convertible also with a hardtop as standard equipment.

TOUR OPTION. If you take your new 911 on a European tour this summer might consider picking it up at the factory in Stuttgart. For \$2,250 you get insurance at the side hell month off plus back to the. An even time to delivery is in fall. The driver's still a trippers off the bahns—so you room those holes. *David W.*

AUTOS

\$74,000 FOR THIS 911

It goes from 0 to 60 mph in five seconds. So what if its navigation system is a little clunky?



Kicking back after a hard day at the office: The Chase Corporate Challenge®



Each year 164,000 men and women representing nearly 6,000 companies participated in the largest racing series of its kind. Each year the 3.5 mile races attract runners from small, emerging growth companies to global corporate giants. Competing in cities around the world, these athletes run for fitness, fun and the privilege of representing their companies.

Chase Corporate Challenge® is open to employees of corporations, businesses and financial institutions. Teams compete in the Men's, Women's and Coed divisions.

Get fit. Have fun. Run in the Chase Corporate Challenge. For entry information write or fax:

Chase Manhattan Bank, Sports Marketing Group, 140 East 45th Street, 16th floor, New York, NY 10017. Fax: (212) 557 3799



1998 RACE SCHEDULE

May 7	New York City #1
May 21	Albany, NY
June 11	Rochester, NY
June 17	Frankfurt, Germany
June 24	New York City #2
June 25	Buffalo, NY
June 30	Newark, NJ*
July 9	London, England
July 16	Binghamton, NY
July 21	Stamford, CT
July 23	Morristown, NJ
July 28	Long Island, NY
July 29	New York City #3
July 30	Boston, MA
August 4	Syracuse, NY
August 6	Chicago, IL
August 12	San Francisco, CA
August 18	Paramus, NJ
Sept. 10	Atlanta, GA*
October 3	Championship, New York City

* Licensing Agreement.
Dates are subject to change.



The right relationship is everything.™

© 1998 The Chase Manhattan Corporation

The New York Times

The Athlete's Foot

American Airlines

PowerBar

BusinessWeek

TIFFANY & CO.

SAUCONY

BUSINESS INTELLIGENCE

HAS IT CROSSED THE CHASM?

Over the past several years, an innovative business approach has gained an increasingly high profile. Business intelligence gives companies the ability to extract greater value from corporate information to enable everyone across the enterprise to make better decisions that directly impact the bottom line. Leading organizations worldwide are already achieving significant competitive advantage with business intelligence. But has it reached a critical mass? Is it moving beyond being the "invisible" advantage of Fortune 1000 companies to become an essential component of mainstream business success?

PASSING THE MAINSTREAM TEST

To answer these questions, consider what mainstream decision makers demand from a business approach. First, a record of proven, bottom-line results. Second, mature products and professional services to address the complete range of enterprise needs. Third, the security of dealing with an established market leader offering best-of-breed products and global support. And fourth, fast and easy deployment using an organization's existing IT infrastructure — often this is the single most important determinant of whether a technology achieves mainstream acceptance.

As the worldwide business intelligence market leader, Cognos Corporation of Burlington, Mass., is uniquely positioned to address all of these criteria. Through developing products that solve customers' specific business problems, Cognos has discovered effective ways to use business intelligence in every department of every enterprise, and in every industry. Today, organizations like Domino's Pizza, Ford, Johnson & Johnson and the National Association of Security Dealers (NASD) are cutting costs, increasing efficiency and enabling new strategic capabilities by adopting Cognos' award-winning business intelligence software. This market leadership is evident in Cognos' strategic

technology partnerships with other industry leaders such as IBM, Microsoft, PeopleSoft, Oracle and SAP. And Cognos business intelligence software deploys easily and quickly across the enterprise, typically delivering return on investment within 30 to 90 days.

SETTING THE AGENDA

The cornerstone of Cognos' success has been enduring customer relationships. As technologies and business needs have evolved, Cognos has responded with new products that extend business intelligence capabilities. Thanks to these pioneering efforts, a paradigm shift has occurred within many leading-edge companies: managers now expect to be able to

< Organizations like Domino's Pizza, Ford, Johnson & Johnson and the National Association of Security Dealers (NASD) are cutting costs, increasing efficiency and enabling new strategic capabilities by adopting Cognos' award-winning business intelligence software. >

easily access corporate data from any angle, in any combination. They expect that creating reports will not be complex or time consuming. They expect to be able to automatically uncover hidden factors in their business. In other words, business intelligence has become a key to how they achieve and sustain competitive advantage.

THE POWER OF THE WEB

As business intelligence enters the mainstream, Cognos has developed products that leverage the power of the Wide Web, which has emerged as a mainstream computing platform. Through the Web, business intelligence capabilities can be distributed to an entire organization. As

every department gains access to a broader perspective of their impact on the organization, and the impact of other departments on them, they can plan better, coordinate more effectively, and use information more effectively. The organization can better align its departmental goals with long-range corporate goals. The

better decisions, every day — by everyone in the organization.



Learn how other companies have used business intelligence to cross the chasm to increased competitiveness.

Order your **free** copy of *The Multidimensional Manager* book at www.cognos.com/chasm.

know. act.



Knowing what is driving business gives you the power to influence where it goes. Cognos puts that power in the hands of every manager within your entire organization. Our world-leading Business Intelligence software lets managers access and analyze multidimensional corporate data whenever they need it. To reveal hidden relationships. To spot trends and opportunities.

To plan more effective strategies. To make more informed, better decisions, every day. Find out how Cognos Business Intelligence can impact your bottom line within 90 days by asking for a free copy of the Multidimensional Manager, the authoritative guide to implementing Business Intelligence in your organization. Call 1-800-426-4667 ext. 2267 or visit our web site.

www.cognos.com/gain

Cognos, the Cognos logo, and Better Decisions Every Day are trademarks of Cognos Inc.

COGNOS®

Better Decisions Every Day™



BizLink

Unless, of course, you actually enjoy filling out forms.

Want advertiser information now, without having to fill out one of those pesky reader service cards? Connect with BizLink, Business Week's new electronic reader service fulfillment system. You'll get the information you need the way you want it—by fax, phone, mail, or e-mail. It's free, it's fast and nothing could be simpler. **Why wait?**

Access BizLink now:

www.businessweek.com/BizLink/

BusinessWeek

Most Read. Best Read. Worldwide.

And if you don't have an Internet connection, just call 1-800-848-6708.

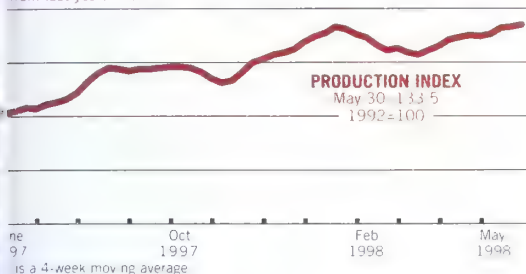
June 22, 1998

1 3Com	14 Lexus CPO	26 SAP America, Inc.	Business Aviation
2 Alitalia Airlines	15 Mannesmann AG	27 SAS Institute, Inc.	Special Advertising Section
3 American Isuzu Motors Inc.	16 MCI Data	28 Savin	36 BREITLING WATCHES
4 American Power Conversion (APC)	17 Mississippi Department of Economic & Community Development	29 Sprint	37 Cessna Aircraft Company
5 Aurum	18 Mita Copystar America	30 THUNDERBIRD The American Graduate School of International Management	38 Executive Jet Aviation
6 Clarify Inc.	19 Mitsubishi Electronics America	31 Toshiba Telecommunication Systems Division	39 Fairchild-Dornier, Inc.
7 Crawford & Company	20 Mitsubishi Motors	32 Toyota	40 Gulfstream Aerospace Corporation
8 DataWorks	21 Network Associates	33 Toyota in America	41 National Business Aviation Association, Inc.
9 Fujitsu PC	22 Prudential Investments	34 USWEB	
10 GTE Internetworking	23 Prudential Securities	35 UUNET Technologies, Inc.	
11 Hughes Network Systems	24 Qwest		
12 Infiniti	25 Rockwell Corporation		
13 Kingston Technology			

Business Week Index

PRODUCTION INDEX

from last week: 0.2%
from last year: 7.4%



on index rose for the fifth week in a row. The unaveraged index also 133.6, from 132.9, and the monthly index for May advanced by 0.8%. ter seasonal adjustment, rail-freight traffic was up 1.7%, and the of American Railroads reported that motor vehicles, coal, and nonmetallic e responsible for much of May's growth. Output of steel, autos, trucks, were also up. Only lumber and electricity posted declines.

Index copyright 1998 by The McGraw-Hill Companies

INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
CES (6/5) S&P 500	1113.86	1090.82	29.8
BOND YIELD, Aaa (6/5)	6.59%	6.62%	-12.3
PLY, M2 (5/25) billions	\$4,156.4	\$4,157.7r	6.6
AIMS, UNEMPLOYMENT (5/30) thous	339	309r	1.2
APPLICATIONS, PURCHASE (6/5)	272.1	259.8	31.8
APPLICATIONS, REFINANCE (6/5)	1,120.7	1,174.3	247.6

Standard & Poor's, Moody's, Federal Reserve, Labor Dept., Mortgage (Index: March 16, 1990=100)

INTEREST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
BONDS (6/9)	5.38%	5.50%	5.54%
CASH PAPER (6/9) 3-month	5.50	5.50	5.67
TES OF DEPOSIT (6/10) 3-month	5.58	5.59	5.67
TGAGE (6/5) 30-year	7.10	7.12	8.01
E MORTGAGE (6/5) one-year	5.80	5.78	5.97
	8.50	8.50	8.50

Federal Reserve, HSH Associates, Bloomberg Financial Markets

the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense =Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

WEEK AHEAD

PRICE INDEX

ne 16, 8:30 a.m.EDT ▶ Consumer goods and services probably 2% in May, the same gain as in s the median forecast of econo- by Standard & Poor's MMS, a divi- McGraw-Hill Companies. Excluding ergy, core prices most likely rose , after a 0.3% gain in April.

STARTS

ne 16, 8:30 a.m.EDT ▶ Housing ly edged up to an annual rate of in May, from 1.54 million in April. been one of the strongest sectors in in 1998.

INDUSTRIAL PRODUCTION

Tuesday, June 16, 9:15 a.m.EDT ▶ The S&P MMS median forecast projects that the output of the nation's factories, mines, and utilities increased 0.3% in May, after a small 0.1% advance in April. The stronger May gain is sug- gested by the solid increase in total hours worked in the factory sector. May's operating rate for all industry most likely remained at April's reading of 81.9%.

BEIGE BOOK

Wednesday, June 17, 2 p.m.EDT ▶ The Federal Reserve's compilation of regional economic activity will be released in advance of the monetary-policy meeting set for June 30 and July 1.

INTERNATIONAL TRADE

Thursday, June 18, 8:30 a.m.EDT ▶ The trade deficit likely widened further in April, to \$13.4 billion, from \$13 billion in March. The bigger trade gap suggests that the foreign sector continues to subtract from economic growth this quarter after deducting three percentage points from growth in the first quarter. Exports, which rose 3.3% in March, probably fell in April, while imports, up 3.8% in March, were likely flat.

FEDERAL BUDGET

Friday, June 19, 2 p.m.EDT ▶ The Treasury Dept. will most likely report a deficit of \$41 billion for May, less than the \$48.5 billion of May, 1997.

PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (6/6) thous. of net tons	2,174	2,208#	3.9
AUTOS (6/6) units	118,571	97,126r#	-10.0
TRUCKS (6/6) units	143,088	114,603r#	8.6
ELECTRIC POWER (6/6) millions of kilowatt-hrs.	66,333	64,258#	11.4
CRUDE-OIL REFINING (6/6) thous. of bbl./day	15,245	15,532#	0.5
COAL (5/30) thous. of net tons	20,984#	20,723	4.1
LUMBER (5/30) millions of ft.	374.3#	480.3	-9.6
RAIL FREIGHT (5/30) billions of ton-miles	26.2#	27.2	6.9

Sources: American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, American Petroleum Institute, Energy Dept., WWPAl, SFPAP, Association of American Railroads

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (6/10) \$/troy oz.	293.000	292.400	-14.8
STEEL SCRAP (6/9) #1 heavy, \$/ton	134.50	135.50	0.0
COPPER (6/5) ¢/lb.	79.0	79.4	-33.3
ALUMINUM (6/5) ¢/lb.	64.5	65.3	-15.5
COTTON (6/6) strict low middling 1-1/16 in., ¢/lb.	71.94	67.71	2.9
OIL (6/9) \$/bbl.	13.56	14.55	-27.4
CRB FOODSTUFFS (6/9) 1967=100	238.13	238.37	-0.8
CRB RAW INDUSTRIALS (6/9) 1967=100	302.29	304.93	-10.6

Sources: London Wednesday final setting, Chicago market, Metals Week, Memphis market, NYMEX, Commodity Research Bureau

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (6/10)	141.63	138.36	111.38
GERMAN MARK (6/10)	1.80	1.77	1.71
BRITISH POUND (6/10)	1.63	1.64	1.64
FRENCH FRANC (6/10)	6.03	5.94	5.80
ITALIAN LIRA (6/10)	1770.5	1743.5	1690.0
CANADIAN DOLLAR (6/10)	1.47	1.45	1.39
MEXICAN PESO (6/10)	8.881	8.788	7.970
TRADE-WEIGHTED DOLLAR INDEX (6/10)	113.8	112.0	102.6

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars Trade-weighted dollar via J.P. Morgan

Index to Companies

This index gives the starting page for a story or feature with a significant reference to a company. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

A

ABN Amro 88
Ace Hardware 132
ActivMedia 122 154
Adaptec (ADPT) 122, 132
Advanced Manufacturing Research 140
Advanced Micro Devices (AMD) 42, 218
Agile Software 122
Agros Holding 104
AirTran (AAIR) 96
Alcatel Alsthom 60
Alliance Quasar Fund 206
Allied Capital (ALLA) 206
Amazon.com (AMZN) 122, 144, 154, 162
American Airlines (AMR) 96
American Express (AXP) 144, 184
American Finance & Investments 144
American Greetings (AM) 102
American Trans Air (AMTR) 96
America Online (AOL) 162
AMP 54
Andersen Consulting 88, 162
Apple Computer (AAPL) 10, 122
Anba Technologies 132
ARK Asset Management (ARK) 40
Astra (A) 40
AT&T (T) 42, 144
Aucnet 146
Auto-By-Tel 122
Avant! (AVNT) 208

B

Baan (BAANF) 170
Banco Santander 60
Bank Handway 104
Barclays Bank 148
Barnes & Noble (BKS) 154, 162
Bates Saatchi & Saatchi 114
Bear Stearns (BSC) 40, 50, 103
Belair/Empress 146
Bell Atlantic (BEL) 48
Bentley Health Care 76
Bernstein (Sanford C.) 50
Best Buy (BBY) 88
Biogen (BGEN) 40
Black 96
Bloomberg 182
Boeing (BA) 50, 67, 122, 132
Boise Cascade (BCC) 132
Booz Allen & Hamilton 67
Borders (BGP) 154
Brahma 204
Bristol-Myers Squibb (BMY) 132
BroadVision 170
Brown & Williamson 50
Byers Chrysler Plymouth Dodge 122

C

Cable & Wireless (CWP) 48
Cadence Design (CDN) 170
Caldor (CLDR) 162
Calphalon 162
Capital Data 60
Capital Records 122
Carlson Leisure 96
Catalina 154
Cendant (CD) 154, 162, 188
Century Business Services (CBIZ) 206
Challenger Gray & Christmas 67
Charterhouse 60
Checkpoint Software 148

Chevron (CHV) 132
Chromatics Color Sciences 176
Chrysler (C) 39
CHS Electronics (CHSE) 208
Chubb 56
Circuit City Stores (CC) 88, 122
Cisco Systems (CSCO) 122, 132, 148
Citicorp (CCI) 6, 67, 104, 184
Claron Commercial 209
Clayton Dubilier & Rice 206
CNET (CNWK) 48
Coca-Cola (KO) 104, 114
Columbia House 154
Commerce One 132
Compaq Computer (CPQ) 42, 122, 140, 218
CompUSA (CPU) 140
Con Edison (EDL) 132
Cool Sportz 132
Cowen 40
Crabbe Huson Real Estate Investment Fund 209
Credit Suisse First Boston 50, 188
CrossRoute 132
CRW Financial (CRWF) 188
CVS (CVS) 148
Cyber Dialogue 130, 154
Cyrus (CYRX) 218

D

Daimler Benz (DAI) 39
DOB Needham Worldwide 104
Dell Computer (DELL) 44, 122, 154, 170, 182
Delonghi Caffè Capri 162
Delta Air Lines (DAL) 36
Deutsche Bank 184
Digital Equipment (DEC) 42, 44, 218
Dollar General (DG) 38
Dominion Capital Advisors 188
Donaldson Lufkin & Jenrette 154, 162, 206
Doughty Hanson 60
Dow Jones (DJ) 122
Dreyfus (MEL) 176
DSC Communications (DIGI) 60
Dun & Bradstreet (DNB) 206
DuPont (DD) 40

E

Eastman Kodak (EK) 56
eBay 154
EC 132
Eddie Bauer 154, 162
egghead.com 146
Electronic Data Interchange 132
Electronic Data Systems (EDS) 130
E-Loan 122
Emak 60
EM TV & Merchandising 60
Encore Books 162
Entrust 148
Ericsson (L.M.) (ERICY) 104
Ernst & Young 130
eToys 154, 162
E*Trade (EGRP) 122, 154
EVEREN Securities 209
Excite (XCIT) 48, 154

F

Factory Card Outlet 103
Fairfield Inns 67
FastParts 122, 140, 146

Federal Express (FDX) 140, 148, 132
Fidelity 184, 188
First Call 39
Fleet Financial (FLT) 37, 206
Forrester Research (FORR) 122, 130, 132, 144
Fragrancenet 162
Franklin Health 76
Fredon 34
Fujitsu 16
Furman Selz 39

G

Gap (GPS) 162
Garden Escape 154
Gartner Group (GART) 132, 154, 166
GEIS 132
General Dynamics (GD) 53
General Electric (GE) 34, 122, 132, 148, 170
General Motors (GM) 34, 39, 114, 148
GetSmart.com 122
Gibson Greetings (GIBG) 102
Gibson Guitar 206
Giga Information 132
Gillette (G) 114
Global Industries 208
Goldman Sachs 34, 60, 122, 178
Gomez Advisors 154
Govett Smaller Companies Fund 208
Green Street Advisors 209
GTE (GTE) 10, 148, 166
Gund 8

H

Hallmark Cards 102
Hambrecht & Quist (HQ) 154
Harbinger 132
HBO (HBOC) 208
Health Care & Retirement 50
Hewlett-Packard (HWP) 16, 34, 44, 132, 140
HLW International 67
Hughes Aircraft (GM) 67

I

IBM (IBM) 10, 16, 42, 50, 122, 140, 148, 166
Ikea 104
Imation (IMN) 16
IMI 140
Impac Mortgage 209
Infoseek 48
Ingram Micro (IM) 132
Initiative Media 114
Intakt: 50
Instill 122
Instinet 182
InsWeb 122
Intel (INTC) 42, 88, 132, 154, 218
Intergraph (INGR) 42, 218
International Data 148, 166, 170
International Paper (IP) 67
International Survey Research 67
Intersoh 60
Invesco 176
Investors Associates 176
Iomega (IOM) 16
Ionica Group 60
itsy bitsy Entertainment 8
i2 Technologies (ITWO) 140

J

Jackson Hewitt 188
Janssen-Meyers Associates 176
John Hancock 203
Johnson & Johnson (JNJ) 114
Jupiter Communications 146

K

Kagima 67
Kaiser Permanente 67
Kearney (A.T.) 40
Kinko's 206
Kmart (KM) 38, 102
KPMG Consulting 140
Kroger (KR) 102

L

Laidlaw Transportation (LDW) 206
Lehman Brothers (LEH) 188
Level 3 Communications (LVL) 48
LILCO 50
Lipper Analytical Services 26, 184
LJR Redbook Research 38
Lockheed Martin (LMT) 53
Long-Term Credit Bank of Japan 184
Lotus Development (IBM) 10, 44
Lucent Technologies (LU) 148

M

Macroeconomic Advisors 37
Mail Boxes Etc. (MAIL) 206
Management Horizons 38
Manor Care (MNR) 50
Manpower (MAN) 170
Manugistics 140
Marmott International (MAR) 67
MAS Midcap Growth Fund 206
Mattel (MAT) 154, 162
Maytag (MYG) 88, 122
McConn-Erickson 114
McDonald (MDD) 102
McDonnell Douglas 67
McGraw-Hill (MHP) 37, 215
MCI Communications (MCIC) 10, 48, 144, 148
Mercer Management Consulting 146
Merck (MRK) 40, 67
Merrill Lynch (MER) 122, 178, 182, 184, 188
Micropal 184
Microsoft (MSFT) 10, 42, 122, 218
Mobil (MOB) 132
Mondavi (Robert) 132
Morgan Stanley Dean Witter (MWD) 48, 178, 208
Morningstar (MSTR) 206
Morten Beyer & Agnew 96
Motorola (MOT) 34, 170
Mutual Fund Trim Tabs 50

N

NASCAR 203
National Semiconductor (NSM) 42, 132, 148
NationsBank (NB) 132
NBA 203
NBC (GE) 48
NEC 16
Neiman Marcus (NMG) 38
Net Perceptions 154
NetScape Communications (NSCP) 10, 132, 218
Network Associates (NETA) 122, 148
New England Business Service (NEB) 206

Newport News Shipbuilding (NNS) 53
Nike (NKE) 104, 144, 204
Nikko Securities 184
Nomura Securities 184
Noodle Kidoodle (NKID) 162
Northwest Airlines (NWA) 36
Norwest (NOB) 50
Novartis 188
N2k 154

O

Ocwen Asset Investment (OAI) 209
Office Depot (ODP) 206
OfficeMax (OMX) 206
Olsten 67
Omega Advisors 176
1-800-Flowers 144, 154
OnSale 154
Oracle (ORCL) 166

P

PaineWebber (PWJ) 96, 182
Pannon GSM 114
Paper Warehouse 103
Parmalat 204
Party City 103
Party Land 103
Pasteur Merieux Connaught 188
Paychex (PAYX) 206
Penney (J.C.) (JCP) 140
PeopleSoft (PSFT) 166
Pfizer (PFE) 40, 50
Phibro 178
Pirelli 204
Polaroid (PRD) 34
Polygram 8
Porsche 210
Potten & Pannen 104
Powell's Books 162
Price Waterhouse 56
Primar Decision Economics 38
Procter & Gamble (PG) 104, 132
Prudential HealthCare 132
Prudential Securities 53

Q

QVC 162
Qwest Communications (QWST) 48

R

RAND 17
Raytheon (RTN) 67
Realtor.com 122, 154
Recreational Equipment 154
Reebok (RBK) 102, 104
Regional Financial Associates 26
Republic Industries (RII) 206
Reuters 170
Rhône-Poulenc 188
Royal Bank of Scotland 60
Royal Motor Sales 122
Royce & Associates 102

S

SAFECO Small Company Stock Fund (SFSCX) 209
Salick Health Care 76
Salomon Smith Barney (TRV) 6, 34, 96, 178, 182
SangStat Medical (SANG) 188
Sanwa Bank 184
SAP 154, 166
SBC Warburg Dillon Read 62
Schwab (Charles) (SCH) 154
Security Dynamics (SDTI) 148
Service Merchandise (SME) 162
Shell Oil (RD) 56

Sirrom Capital (SIR) 20
Skyline Special Equities
Smart Technologies 170
Snap! 48
South Pacific Express Tr
Southwest Airlines (LUV)
Sprint Airlines 96
Sprint (FON) 10, 48, 148
Standard & Poor's (MHP)
Staples (SPLS) 206
Sterling Commerce 132
Streamline 154
Sumitomo Bank 184
Sunbeam (SOC) 6
Sun Microsystems (SUN)
Superdiplo 60
Swiss Bank 184

T

Taco Bell 148
Tandy (TAN) 88
TeleSpectrum Worldwide (TSLP) 188
Teltech Resource Netwo
Tenet Healthcare (THC)
Texas Instruments (TXN) 140
Thomson Consumer Electronics 140
Timex 162
Toma 104
Toys 'R' Us (TOY) 103
Travelers Group (TRV)
Turner Sports (TWX) 202

U

Unilever 104, 114
United Airlines (UAL) 36
U.S. Office Products (O)
US West (USW) 67

V

Value Line 206
Van Wagoner Emerging Fund 208
Vector Securities Intern
Verifone 132
VeriSign (VRSN) 148
Viatal (VYTL) 188
Visa 132
Volkswagen 210

W

Wal-Mart Stores (WMT) 103, 140, 206
WebMethods 132
Wells Fargo (WFC) 50
Westel 104
Westinghouse Electric
Weyerhaeuser China (W)
Whirlpool (WHR) 88
Winkler & Dunneber
Wolfgang Puck Food
WorldCom (WCOM) 48
WSL Strategic Retail

X

Xerox (XRX) 67
Xylan (XYLN) 130

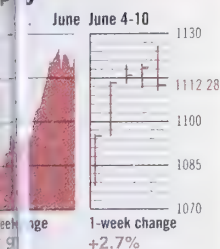
Y

Yahoo! (YHOO) 122, 1

Z

Zacks Investment Res
Zeneca Group (ZEN)
Zenith Media Services
Zona Research 122
Zwack Unicorn 104

Investment Figures of the Week



SUMMARY
ed mightily on June g long-term interest e lowest level in five e bond crowd took an Alan Greenspan's before Congress to he won't be raising me soon. Stocks inid, but the Dow inter fell, to close at l, the blue-chips had for the week. Smallh, remain in a funk. e taking their biggest i. Hong Kong stocks 9% on June 10 on the Chinese governdevalue its currency.

U.S. MARKETS	Latest	% change	
		Week	Year
Dow Jones Industrials	8971.7	1.9	18.4
NASDAQ Combined Composite	1773.3	1.8	26.0
S&P MidCap 400	358.0	1.2	26.5
S&P SmallCap 600	187.8	-0.1	19.4
S&P SuperComposite 1500	236.9	2.5	27.4

SECTORS	Latest	% change	
		Week	Year
Bloomberg Information Age	335.0	3.3	27.6
S&P Financials	135.4	3.0	35.9
S&P Utilities	246.1	0.9	27.3
PSE Technology	331.6	2.9	20.8

FOREIGN MARKETS	Latest	% change	
		Week	Year
London (FT-SE 100)	5987.4	1.5	26.7
Frankfurt (DAX)	5754.5	2.5	56.5
Tokyo (NIKKEI 225)	15,339.3	-0.1	-24.4
Hong Kong (Hang Seng)	7979.4	-9.5	-44.7
Toronto (TSE 300)	7433.8	-0.8	15.1
Mexico City (IPC)	4396.8	-1.3	4.8

FUNDAMENTALS	Latest	Week ago	Year ago
S&P 500 Dividend Yield	1.40%	1.42%	1.72%
S&P 500 P/E Ratio (Last 12 mos.)	26.6	26.0	21.9
S&P 500 P/E Ratio (Next 12 mos.)*	21.6	21.1	17.8
First Call Earnings Revision*	-0.92%	-0.60%	-1.70%

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 200-day average	1008.4	1003.8	Positive
Stocks above 200-day average	51.0%	49.0%	Neutral
Options: Put/call ratio	0.54	0.61	Negative
Insiders: Vickers Sell/buy ratio	2.52	2.72	Negative

Data: Bloomberg Financial Markets; *First Call Corp.

BEST-PERFORMING GROUPS	Last month%	Last 12 months%
Genl. Merchandise Chains	16.2	Specialty Appar. Retailers 123.9
Drug Chains	14.3	Automobiles 75.3
Specialty Appar. Retailers	12.4	Genl. Merchandise Chains 74.5
Specialty Retailers	12.1	Homebuilding 71.0
Personal Loans	10.9	Personal Loans 69.7

WORST-PERFORMING GROUPS	Last month%	Last 12 months%
Oil & Gas Drilling	-25.6	Metals -42.3
Semiconductors	-18.3	Gold Mining -30.7
Gold Mining	-16.2	Shoes -22.9
Aluminum	-13.1	Photography/Imaging -17.5
Forest Products	-12.9	Aluminum -16.7

BLOOMBERG MONEY FLOW ANALYSIS

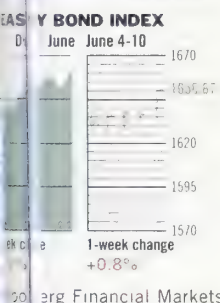
Rebound ahead? Stocks with most significant buying on price weakness

	Price	1-month change
IBM	119 1/4	-1/16
Wells Fargo	353	-18 7/8
Avon Products	83 19/16	-9/16
H.F. Ahmanson	73 3/8	-3 9/16
J.P. Morgan	122 3/4	-9 3/8
Lockheed Martin	110 9/16	-1 15/16

Decline ahead? Stocks with most significant selling on price strength

	Price	1-month change
WorldCom	45 1/4	2 5/16
Cisco Systems	79 1/2	4 3/4
Microsoft	87 1/16	2 13/16
PeopleSoft	46 15/16	1 15/16
L.M. Ericsson-ADR	30 3/8	3 3/32
Abbott Laboratories	37 3/16	1

YIELD RATES



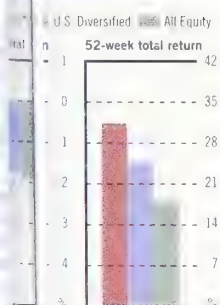
KEY RATES	Latest	Week	Year
MONEY MARKET FUNDS	5.10	5.10	5.15
90-DAY TREASURY BILLS	5.13	5.13	4.97
6-MONTH BANK CDS	5.08	5.07	5.21
1-YEAR TREASURY BILLS	5.42	5.42	5.72
10-YEAR TREASURY NOTES	5.51	5.57	6.55
30-YEAR TREASURY BONDS	5.70	5.80	6.83
LONG-TERM AA INDUSTRIALS	6.27	6.36	7.35
LONG-TERM BBB INDUSTRIALS	6.71	6.80	7.75
LONG-TERM AA TELEPHONES	6.58	6.62	7.58

BLOOMBERG MUNI YIELD EQUIVALENTS

Taxable equivalent yields on AAA-rated, tax-exempt municipal bonds, assuming a 31% federal tax rate.

	10-yr. bond Latest week	Last week	30-yr. bond Latest week	Last week
GENERAL OBLIGATIONS	4.40%	4.44%	4.93%	4.97%
PERCENT OF TREASURIES	79.93	80.00	86.53	85.95
TAXABLE EQUIVALENT	6.38	6.43	7.14	7.20
INSURED REVENUE BONDS	4.54	4.55	5.13	5.15
PERCENT OF TREASURIES	82.48	81.98	90.04	89.06
TAXABLE EQUIVALENT	6.58	6.59	7.43	7.46

MUTUAL FUNDS



EQUITY FUNDS

Leaders		Laggards	
Four-week total return	%	Four-week total return	%
Smith Barney European A	7.2	Lexington Troika Russia	-35.1
Fidelity Germany	6.7	Newport Greater China A	-19.6
Wright Equifd.-Belg./Lux.	6.3	U.S. Global Investors Gold	-19.2
Waddell & Reed Intl. Gr. B	5.8	Invesco Asian Growth	-17.9
Fidelity Select Retailing	5.7	Kemper Asian Growth B	-17.6
Leaders		Laggards	
52-week total return	%	52-week total return	%
FMI Focus	63.9	Matthews Korea I	-65.8
Fidelity Select Brokerage	60.3	Lex. Crosby Sm. Cap Asia	-63.0
Scudder Greater Europe Gr.	59.6	U.S. Global Investors Gold	-61.1
Fidelity Select Retailing	57.8	Montgomery Emerg. Asia R	-60.0
Weitz Hickory	55.9	Morg. Stan. Inst. Asia Eq. A	-59.6

EQUITY FUND CATEGORIES

Leaders		Laggards	
Four-week total return	%	Four-week total return	%
Europe	1.3	Pacific/Asia ex-Japan	-14.6
Utilities	0.9	Precious Metals	-12.5
Large-cap Growth	0.2	Diversified Emerging Mkts.	-9.6
Foreign	-0.2	Diversified Pacific/Asia	-9.2
Domestic Hybrid	-0.2	Natural Resources	-8.7
Leaders		Laggards	
52-week total return	%	52-week total return	%
Financial	38.4	Pacific/Asia ex-Japan	-49.7
Communications	38.0	Diversified Pacific/Asia	-40.3
Europe	35.4	Precious Metals	-37.0
Large-cap Growth	30.6	Japan	-27.7
Utilities	28.3	Diversified Emerging Mkts.	-24.3

FANFARE FOR THE COMMON MAN

Tight labor markets make managers sweat and alarm Wall Street economists, but for now they're a blessing to America. Look around. Virtually everyone is working. College grads are getting signing bonuses, high school dropouts are getting jobs, and people on welfare are moving into the workforce. The America Dream of a rising economic tide benefiting everyone, of each generation doing better than the previous one, of opportunity and upward mobility rewarding success, is in full force. Like the 1950s, the U.S. economy is enjoying what Federal Reserve Chairman Alan Greenspan calls a "virtuous cycle."

None too soon. The truth is the American Dream has been in trouble. Blame it on globalization or technological change, but real wages stopped rising some 25 years ago and the gap between rich and poor has been widening. Even the robust economic expansion of the 1990s had benefited mainly people in the top half of the income stream while the bottom had fallen further behind.

Now, thanks to a fast-growing economy and extremely tight labor markets, wages for the lowest-paid workers in America in the past 18 months have been rising twice as fast as wages for the best-paid. This is the biggest increase in inflation-adjusted weekly earnings since the government began collecting the stats in 1979. Economic growth is finally beginning to close the gap between incomes of the rich and poor.

Not everyone believes this is great news. To Wall Street, rising wages threaten to reignite inflation and destroy cor-

porate profits, which can only lead to a stock market correction and perhaps a recession. Of course, there is also some danger of an uncontrolled wage-price spiral. But the Federal Reserve shows every sign of remaining vigilant. And inflation, at 1.5%, is at its lowest since the mid-1980s.

True, profits are suffering. Pretax profits fell in the two quarters, the first consecutive decline since the 1990 recession. But laying the problem of weak corporate earnings solely at the feet of rising real wages is misguided. Asian deflation is at least as culpable, if not more so. The Asian crisis is a triple whammy on U.S. corporate profits. For exporters, it means lower sales and profits. For companies that produce and sell in Asia, the declining baht, Indonesian rupiah, and Japanese yen translates into lower profits in dollars. And for much of the domestic economy, the flood of cheap Asian goods is destroying purchasing power. Deflationary pressures and a rising dollar are eating into corporate profits.

Strong domestic demand is actually offsetting much of the downward pull of Asia. Without rising real wages, the economy would be in far greater trouble and growth would certainly be significantly lower (page 37).

So give the working man and woman a break. Families are only now beginning to catch up to where they were a couple of recessions ago. Tighter labor markets are restoring a measure of fairness while propping up the economy against the deflationary forces from Asia. We should be grateful.

A FLIMSY CASE AGAINST INTEL

The Federal Trade Commission has a lousy case against Intel Corp. Not that Intel's 90% share of the PC microprocessor market may not warrant a look-see from regulators. There may be as many complaints from high-tech companies about Intel using its muscle to gain advantage as there are about Microsoft Corp. But defining intellectual-property right disputes between Intel and its customers, Intergraph, Digital Equipment, and Compaq, as a significant antitrust issue is off the mark. At least the case against Microsoft is a broad attack on specific anticompetitive strategies that allegedly locked out a directly competing browser made by Netscape Communications Corp. The Intel suit is about complex patent disagreements with customers that may harm unspecified innovation in the future. The case rests on the assumption that Intel is bullying its own customers because they could become potential competitors. It's not unheard of in antitrust law, but it is small-bore, vague, and hard to prove.

The real issue with Intel is whether it is using its dominance in PC microprocessors to embark on a forced march to dominate motherboards and chip sets, including graphics

chips. Plenty of chip-set manufacturers went under and expanded into the market. Their complaints might have formed a substantial antitrust case. The FTC chose not to take that route. It isn't even arguing that Intel is trying to take market share from Intergraph in the graphics chip business (Perhaps it's because Intel doesn't yet make such a chip to compete with Intergraph).

Even as the FTC moves against Intel, technology is weakening the company's grip on the microprocessor market. Intel is having difficulty extending its market control to chips used in \$2,000-and-up PCs into the hot sub-\$1,000 market. Advanced Micro Devices Inc. and Cyrix Corp. compete here. Intel missed the big switch to cheaper PCs, and the Celeron chip has not yet been well received.

The FTC is on shaky ground when it bases a case on patent disagreements with customers who could potentially become competitors. It would be well-served to focus on a simple goal—deciding whether or not Intel uses market power in ways that are clearly anticompetitive. And the case against Intel, that is going to be very difficult.

only get 365 of these each year.

Imagine making the most
of every single one.



Mercury Sable

Imagine yourself in a Mercury



You pack a lot into your day. So we pack a lot of helpful ideas into every Mercury. Like Sable's 60/40 split-fold rear seat and available front flip-fold center console. They give you extra flexibility carrying passengers and gear. At Mercury we design cars to keep up with your busy schedule. Maybe that schedule should include a test drive. Call 1 800 446-8888 or visit www.mercuryvehicles.com.

SIEMENS



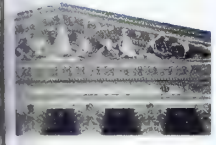
Before you build this, you need

Automation • Building Technology • Communications • Computers • Control Systems • Drives • Energy • Industrial Machinery • Information Systems • Power Generation • Transportation

BusinessWeek

9, 1998 / A PUBLICATION OF THE MCGRAW-HILL COMPANIES \$3.95

Dollar,
Market,
You



rosoft

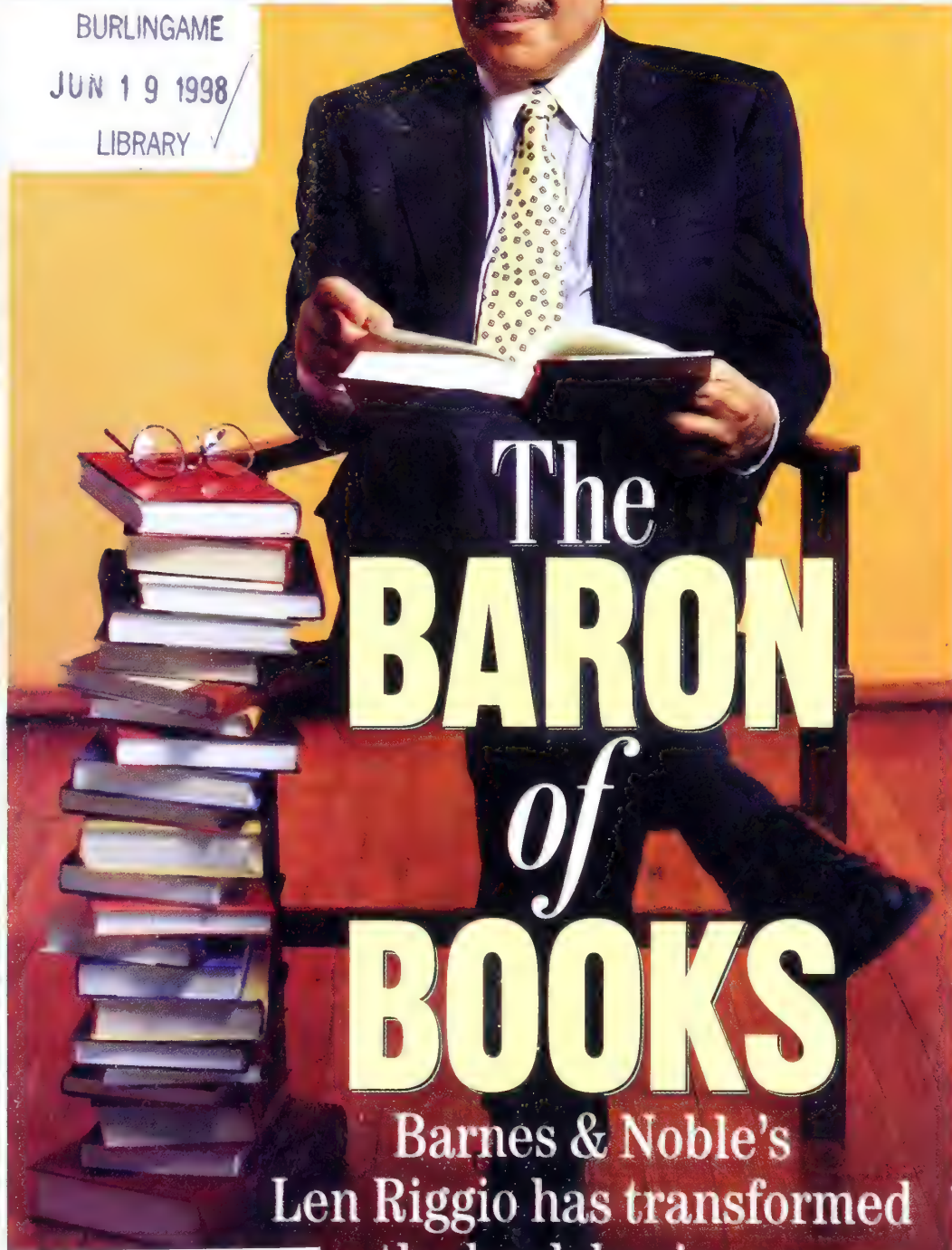


escape
latest
strategy
work?

nce
ss is
ng-



BURLINGAME
JUN 19 1998
LIBRARY



The BARON of BOOKS

Barnes & Noble's
Len Riggio has transformed
the book business.
Is that good or bad?

PAGE 108

BURLINGAME PUBLIC LIBRARY
480 PRIMROSE RD
BURLINGAME CA 94010-4010
#BXBDGDD**5-DIGIT
#0602 1058111600#JAN99 TIN 0158
94010

A closed network is an oxymoron.





**Networks are about
open access.**

**Different people and different
technologies, working together to make
your business better. Everything we do,
every product we make is dedicated to
this one ideal.**

We're networking specialists.

**Other software companies insist that
their stuff will only work properly
with their stuff. That's fine for them.
For us, that's not really a network.**

**NetWare® 5, our new network
software, works cross-platform.
It integrates. It even makes our
competitor's products better. Why?**

**Our customers need solutions,
not contradictions.**

www.novell.com/open

Novell

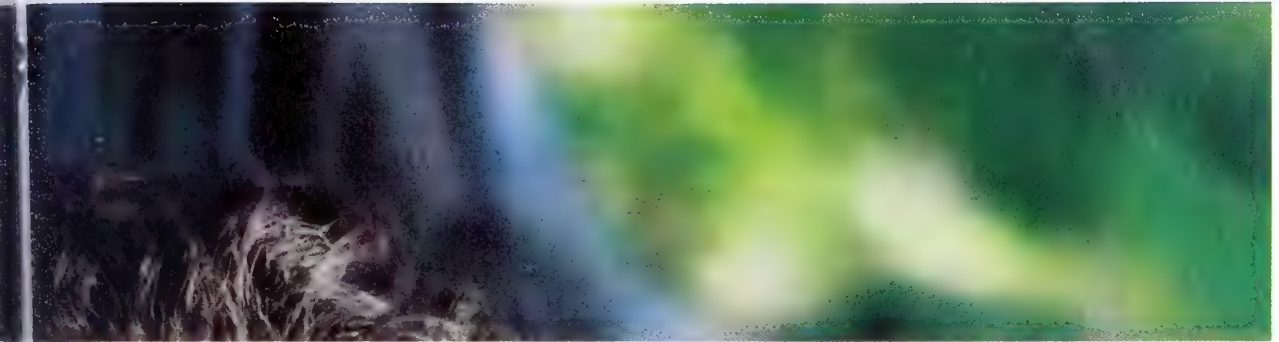
open/net/works

This would definitely bring a sigh of relief to every person suffering from an allergy. To make this come true, the scientists at our pharmaceutical company, Hoechst Marion Roussel, are conducting extensive research. And today doctors are already able to prescribe effective antihistamines which reduce the allergic reaction without making the patient drowsy. So that in the future, we hope everybody can welcome spring.

Imagine the only reaction caused by pollen is spring fever.

The Future in Life Sciences

Hoechst





BusinessWeek

JUNE 29, 1998

Cover Story

108 THE BARON OF BOOKS

Barnes & Noble's Leonard Riggio says his freewheeling megastores have "liberated" a hidebound industry. But smaller rivals, gasping for air, say that the chain is predatory and that Riggio's new power as a tastemaker is throttling American literature. The tough-talking New Yorker admits he might have been just as successful selling hand tools. But books are his business—one he says he hasn't really left his mark on yet

News: Analysis & Commentary

30 THE YEN: NOW FOR THE HARD PART

Finally, Washington and Tokyo moved to bolster Japan's beleaguered currency, but now real reform is needed

32 THE STRONG DOLLAR TAKES A TOLL

U.S. companies and markets are starting to suffer from too much of a good thing

34 STOCKS: ASIA HURTS. ASIA HELPS

Depending on which sector you're interested in, both assessments are right

35 COMMENTARY: WORLD TRADE

Why the World Trade Organization needs an overhaul

36 FORD'S LABOR PEACE DIVIDEND

The carmaker could again outearn GM thanks partly to cozy ties with the UAW

38 BIG MESS AT BIG LABOR

Sweeney's ouster of his chief organizer has infuriated other union leaders

40 COMMENTARY: CHAINSAW AL

Al Dunlap did do one thing right: He created an independent board

40 CENDANT LOSES ALTITUDE AGAIN

The discount-club giant's accounting mess may be causing a management rift

42 A FEATHER IN APACHE'S CAP

Why IBM is aiding the software coalition

43 IN BUSINESS THIS WEEK

International Business

46 FRANCE

A growing army of citizens wants to rebuild the Gallic economic model from the ground up—and Paris is responding

48 GERMANY

It's the center of a Europe-wide shakeout in the PC industry

50 RUSSIA

The banks could fall like dominoes if the ruble is devalued

54 INDIA

Delhi didn't count on this fast the ruling party starts losing

58 INTERNATIONAL OUTLOOK

Can David Trimble keep Ireland on the road to peace?

Economic Analysis

22 ECONOMIC VIEWPOINT

Becker: Centralization has

26 ECONOMIC TRENDS

Inequality Canadian-style: If you're to work, don't sweat a lot

27 BUSINESS OUTLOOK

The economy may shrug off

Government

45 WASHINGTON OUTLOOK

Victory in November brings party that shows up at the

99 THE FAA'S JANE GARVEY

After a bumpy beginning, she's to earn her wings as the

VER STORY

OF BOOKS

Noble dispels
tions of
bookstore is

IDEA MILL

Bill Gross
churns out
schemes
for cyber
commerce

page 100

A GOOD FIT

Morgan Stanley
Dean Witter has
confounded
skeptics page 120



WEB WINNER

Netscape scores
a major coup
with Citi page 106



YEN RISE

The rescue
is just a
first step

page 30

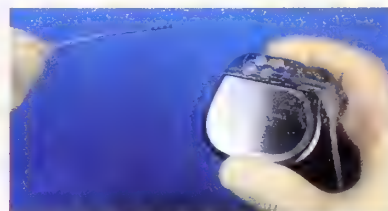
REVOLUTION

is shaking up its
ic model page 46



BIG BRAINS

Cars are getting so clever
it's almost scary page 85



PULSE OF LIFE

Medtronic's pacemaking
therapies page 62

orporation

ETRONIC SETS THE PACE

devices spawn new products

e & Technology

AR SMARTER THAN YOU?

t high-tech wizardry can
te for driver error

MENTS TO WATCH

genes, blocking HIV, a bus that
oles, damaged spinal disks

orkplace

HE SHORTAGE?

uter industry may be crying
re low-wage workers

ICE'S IDEA FACTORY

s idealab! has created 20-plus
tups

ation Technology

GY & YOU

l rooms and airports now are
quick Internet access

104 THE MICROSOFT CASE: A BET ON BILL

Legal experts say the Justice Dept.
may not win more than a token victory

106 NETSCAPE'S SECOND WIND

A major coup has given it a push in the
E-commerce market

Industries

118 HEYDAY FOR PHONE UPSTARTS

Fledgling phone companies are swiping
the monopolies' customers

Finance

120 A STREET MERGER THAT WORKED

After a year, the Morgan Stanley Dean
Witter combine looks like a winner

121 MORE QUESTIONS AT DREYFUS

Did a star fund manager have a second
conflict of interest?

124 A DIFFERENT WAGER ON LAS VEGAS

Crescent puts its money on local folk

126 INSIDE WALL STREET

145 INVESTMENT FIGURES OF THE WEEK

Sports Business

131 COMMENTARY: BASEBALL

Small-market clubs should go where
the money is. How does the New York
Twins sound?

Personal Business

132 INVESTING: Emerging markets

CAREERS: Fixing the Y2K mess

TECHNOLOGY: The cashless society

AUTOS: Chrysler heads uptown

FUND WATCH: David Dreman

Features

6 UP FRONT

10 EDITOR'S MEMO

10 READERS REPORT

11 CORRECTIONS & CLARIFICATIONS

16 BOOKS

Summertime, and the pages are turning

143 BUSINESS WEEK INDEX

144 INDEX TO COMPANIES

146 EDITORIALS

BusinessWeek **ONLINE**

www.businessweek.com

America Online: Keyword: BW

Up Front

EDITED BY ROBERT McNATT

THE DEAL MILL

A PRIVATE WISH NOT TO GO PUBLIC?

SURPRISE! JUST A MONTH after filing for an initial public offering, onetime Internet hotshot PointCast may not go public after all. According to sources familiar with the situation, the Sunnyvale (Calif.) company is searching for a buyer.

PointCast

PointCast declined comment, but sources say it is being shopped around to major media companies. Why? "Fifty percent of the reason for filing was to raise the visibility of the company to potential acquirers," says one source. "PointCast's assets aren't maximized by being a stand-alone." It could be a good buy given its deals with

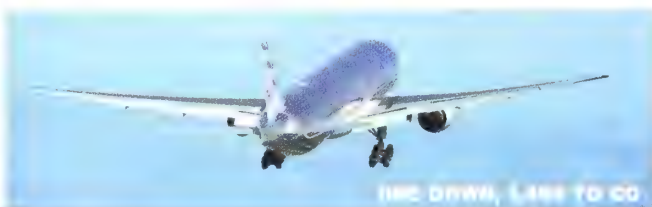
key content-providers and its corporate following.

PointCast used to be a Silicon Valley darling. But its "push" technology—which automatically delivers news and other information to PC screens—has struggled to attract users amid more competition and criticism that it



slows computer networks. And like many Internet companies, PointCast

isn't profitable. What is more, Morgan Stanley Dean Witter, a marquee name in technology banking, had been PointCast's banker, and the white-shoe firm was widely expected to take the six-year-old company public. Now, however, PointCast is being advised by Lehman Brothers, considered less knowledgeable than Morgan Stanley about tech. *Linda Himelstein*



WILD BLUE YONDER

WHY THE ASIAN FLU MAY NOT BUG BOEING

SOMETIMES, THERE IS nothing like a good old-fashioned recession to help out a company. Boeing's 20-year *Current Market Outlook*, issued on June 18, forecasts that Asian economic turmoil will delay purchase of 150 jets from the world's aircraft makers during the next three years. That translates to as much as \$15 billion in missing revenue. And more than half the lost sales would have been Boeing's.

But for the Seattle plane-maker, there's an unexpected silver lining in the shrinking economies of the Pacific

Rim. Boeing is already struggling to build about 1,500 planes in its backlog. That effort so far has cost it \$2 billion in charges due to parts shortages and late deliveries. So deferrals from Asian carriers will give it some breathing room and extend its production boom into the first decade of the 21st century, says Morgan Stanley Dean Witter analyst Pierre Chao.

Boeing expects the Pacific Rim to bounce back by 2002. Asian orders may then come in just as business from European and U.S. carriers wanes. Boeing figures Asian carriers will buy \$427 billion worth of aircraft over the next 20 years. That's serious silver. *Seanna Browder and Andy Reinhardt*

TALK SHOW "He said it was a transition year and don't expect a lot."

—Sunbeam board member Charles Elson, who made the motion to dismiss Chief Executive Albert Dunlap

RANK AND FILE

ONE BIG, UNHAPPY FAMILY AT UNITED

IS THE MANAGEMENT OF United Airlines, the country's largest union-controlled company, secretly against unions? That's what International Association of Machinists President R. Thomas Buffenbarger charges in a blistering June 2 letter to Gerald Greenwald. Greenwald, who calls the charges unfair, was picked as CEO by UAL's unions in a 1994 buyout that gave employees 55% of the company.

The machinists are fired up about a 27-page handbook the company distributed recently to managers telling them how to handle an IAM drive to sign up 19,000 reservation and ticket agents. The book

lists 13 anti-union talking points under the heading: "Why Not a Union?" Because United had pledged neutrality about the vote, Buffenbarger is furious. "It's reversible," he says.

United disagrees, and the handbook emphasizes "positive relationships



GREENWALD

its unions. "Termination of the total agreement leaves a very different impression than the letter's," Greenwald says in a June response to Buffenbarger. Employees have begun and the result due in mid-July

IAM victory would be largest unionization in private business in the since 1984. *David L...*

ACROSS THE POND

SPLICING AT&T INTO BRITISH TELECOM

AT&T AND BRITISH TELECOM are close to a deal to create a joint venture involving both companies' extensive international assets, according to insiders at both telecom giants. Over the past several weeks, AT&T CEO C. Michael Armstrong and Peter Bonfield, CEO of BT, have discussed several options for working together. Now, both have decided in principle on a joint

venture that would combine both companies' international assets, the insiders say. The goal of creating a joint venture is to improve service to large multinationals.

In the past, Armstrong said AT&T's existing loose partnerships in Europe and Asia give it enough control over the quality of service. BT, in contrast, perhaps the most successful international telecommunications company, has a long history of partnerships. BT, in contrast, has a long history of partnerships. BT, in contrast, has a long history of partnerships. BT, in contrast, has a long history of partnerships.

ARMSTRONG keys in on service



sell its 25% stake in BT. The announcement of the AT&T-BT deal will wait several weeks, however. BT expects a final deal with international partner WorldCom close to the purchase of MCI when BT will give up its 25% stake. *Pete...*

You see coffee

We see data



©1998 Sprint Communications Company L.P.

Two-thirds of the *Fortune 500*® rely on Sprint's vision of data

Every day, industry relies on data to sell products, satisfy customers and manage people and processes. That's why Sprint, as a leader in advanced data communications, offers a full portfolio of solutions for your applications — from simple e-mail to complex integration of voice, video and data. And that lets us give thousands of companies a competitive edge. We can do the same for you. **Because business runs on data. And data runs on Sprint.** www.sprint.com 1-888-730-DATA

Sprint®

We help your business do more businessSM

Up Front

MAD AVE

THIS CALL BROUGHT TO YOU BY...

FREE LONG-DISTANCE PHONE calls? Fort Lauderdale-based FreeCaller Communications wants you to have them. Naturally, there's a catch. You have to listen to ads.

Up to three of them. Every time you call.

How does it work? You choose FreeCaller as your long-distance carrier and fill out a demographic profile. Call from home, and before your call goes

through, you hear a series of ad spots. If your party answers, you get five free minutes of long distance. After that, says Todd Fisch, general manager of Intelesis Group, FreeCaller's parent company, you pay "a competitive long-distance rate." The ads are based on your demographics—a suburban soccer

mom, for example, might hear a pitch from Volvo, while a sports fan would hear an ad from Nike. FreeCaller plans to test-market the service in November in New

York and Miami, though it has yet to sign up any advertisers.

FreeCaller's concept parallels broadcast TV: It's free, but ads are part of the package.

FreeCaller is optimistic about the system, which is similar to ones in Australia and Sweden. But some analysts say the idea stinks. Says Ken McGee, vice-president and research fellow at consultants Gartner Group: "I think the American public would rather have a sharp stick in the eye than ads with their phone conversations." *Ellen Neuborne*



TUBE TALK

LIVE, FROM NEW YORK! IT'S TV 101!

SATURDAY NIGHT LIVE, THE 23-year-old late-night comedy staple, has traveled a bumpy

road from "must-see" to "must we?" But producer Lorne Michaels is working to rope in young viewers in another TV venue. A year ago, his production company, Broadway Video, bought Burly Bear Network, which airs offbeat shows for college kids over closed-circuit and campus stations.

Is anybody watching? Yes, says Michaels, who describes

Burly Bear as "bolder than network TV." Burly Bear reaches 275 universities, with 3.5 million potential viewers. In a recent sample, A.C. Nielsen says 11% of them, or about 400,000 students, had tuned in. Burly Bear, which began in 1994, says viewership has quadrupled since Michaels took over, thanks to better programming and distribution; shows are delivered via satellite, cable, and cassette. Burly Bear advertisers include Sony Pictures Entertainment, Maxell, and Cliffs Notes. Michaels says he eventually wants to make a full-service basic-cable network out of Burly Bear. And its most popular show? *The Half Baked* cooking show—which instructs students how to make meals in places "largely unfit for cooking." Yes, this is definitely aimed at college students. *Tammy Reiss*



MICHAELS:
Big man
on campus

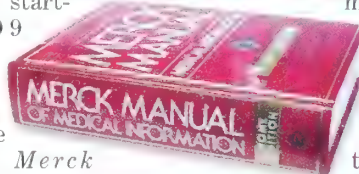
DRAWN & QUARTERED



BOOK BIZ

THE STRAIGHT DOPE FROM MERCK

IT CERTAINLY DOESN'T READ like a medical thriller by Michael Crichton. But buyers are snapping up the first layman's version of Merck & Co.'s 1,500-page medical guide, which started life 99 years ago as a standard physician's reference book. The *Merck Manual of Medical Information—Home Edition* covers much the same ground as the physician's version, in plain English. Since the \$30 lay version hit the bookstores last September, it has sold nearly 600,000 copies. The drugmaker had expected to sell 1 million books,

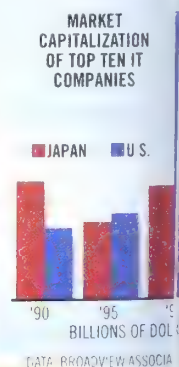
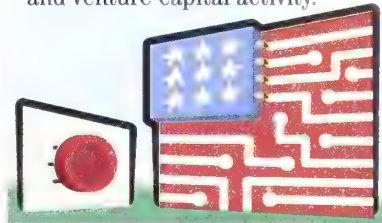


but only after five years. Merck officials stress there is no money in the company, because the manual is part of a non-profit division. The manual's 10th edition, adds a company spokesman, is also written by outside experts—does not promote products. Still, with makers trying to get direct consumer with print advertising, the manual's success doesn't hurt. "The value of marketing is name recognition," says Alan Hillman, associate at the University of Pennsylvania School of Medicine. "I guarantee you the getting a benefit in this marketplace." *Amy*

THE BIG PICTURE

REVERSAL OF FORTUNE

In 1990, any top ten Japanese company easily could have purchased a Microsoft or Intel. Not anymore. No wonder Japan is rethinking its traditional resistance to M&A, IPO, and venture-capital activity.



FOOTNOTES Average sum spent last year at the mall, per visit, by teens: \$40; by baby boomers: \$81; by seniors: \$

SEE ALL THE WAYS IT PAYS TO GET METLIFE FOR BUSINESS.

MetLife Employee Benefits and Investment Products are helping millions of Americans become financially secure.



Life

Dental

Disability

Long-Term Care

Auto & Homeowners Insurance

Hyatt Legal Plans¹

Non-Qualified Executive Benefits

Defined Contribution Programs/401(k)

Defined Benefit Plans

Guaranteed
Non-Guaranteed
Investment Products

75 years of institutional investing. \$330 billion in assets under management.**

Investment Expertise



Plans for every business.
Even small businesses.

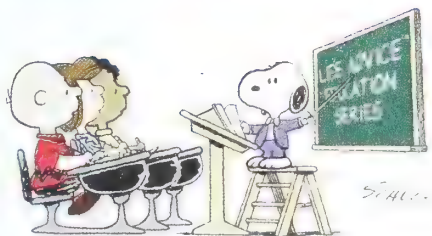
America's
fastest-
growing
major
401(k)
provider.*



voluntary benefits

The source to support diverse employee needs.

Instant online information for you and your employees.



Our Life Advice™ education series helps employees make sense of it all.

Contact your broker, consultant, MetLife account representative, or call toll-free:

1 877-MET-BtoB
(1 877-638-2862)

MetLife
www.metlife.com/business

MetLife Research, Inc. 1997. As of 12/31/97. Subject to approval in some states.

Insurance products and annuities issued by Metropolitan Life Insurance Company. Auto and Homeowners Insurance underwritten by Metropolitan Property and Casualty Insurance Company and Affiliates, Warwick, R.I. © 1998 Metropolitan Life Insurance Co., NY, NY. PEANUTS © United Feature Syndicate, Inc. H9804WDB (exp0499) MLIC-LD

EDITOR-IN-CHIEF: Stephen B. Shepard

MANAGING EDITOR: [Name]

CHIEF ECONOMIST: William Wolman

ASSISTANT MANAGING EDITORS:

Sarah Bartlett, Robert J. Dowling, G. David Wallace

ART DIRECTOR: Malcolm Frouman

CHIEF OF CORRESPONDENTS: James E. Ellis

SENIOR EDITORS: Bob Arnold (New Media), Frank J. Comes, William Grogall, Geoff Lewis, Paul Raeburn, Kathy Rebello, Jane A. Sasseen, Ciro Scotti, Lee Walczak (Washington), Elizabeth Weiner, Chris Welles, Seymour Zucker

EDITORIAL PAGE EDITOR: Bruce Nussbaum

SENIOR WRITERS: Robert Barker, Anthony Bianco, John A. Byrne, Jeffrey M. Laderman, Gene G. Marcial, Karen Pennar, Otis Port, Gary Weiss

ECONOMICS: James C. Cooper (Sr. Economist/Bus. Outlook ed.), Kathleen Madigan, Michael J. Mandel (Economics ed.), Peter Coy (Econ. Core) (Trends ed.), Christopher Farrell (Contributing ed.)

INTERNATIONAL: Christopher Power (Asian Edition ed.), Rose Brady (European Edition ed.), Duane E. Anderson, Pete Engardio, Joan Warner (Sr. news eds.), John Templeman (Political affairs), Shen Prasso (Asia), John Pearson (Latin America), Kerry Capell (Finance)

ASSOCIATE EDITORS: Catherine Arnt, Aaron Bernstein, Dan Beucke, Amy Dunkin, Rick Green, Neil Gross, Keith H. Hammonds, Kelley Holland, Larry Light, Ira Sager, Leah Nathans Spiro, Fred Strasser, Pat [Name]

PICTURE EDITOR: Lawrence Lippmann

SENIOR ART DIRECTOR: Francesca Messina

DEPARTMENT EDITORS: Books: Hardy Green Corporations: Nanette Byrnes,

I Jeanne Dugan Enterprise: Robin D. Schatz Legal Affairs: Mike

France Management: Jennifer Reingold Marketing: Ellen Neuborne

Markets & Investments: Suzanne Woolley Media: Richard Siklos Money

& Banking: Debra Sparks People: Eric Schine Personal Business:

Edward C. Baig Personal Finance: Todd Gutner Scoreboards: Frederick

J. Jespersen Software: Amy Cortese Technology Strategies: Marcia

Stapanek Telecommunications: Peter Elstrom Up Front: Robert McNatt

STAFF EDITORS: Lori Bongiorno, Heather Green, Joan Oleck, Edith Updike

COPY EDITORS: Prudence Crowther, Harry Maurer (Deputy chiefs), Marc

Coffey, Jim Tabei (Asst. chiefs), Tim Beknap, Aleta Davies, Jack Robbins,

Doug Royalty (Sr.), Giles Blunt, Joseph Mandel, Anne Newman, David

Pengilly, Malka Percal, Lourdes Valeriano Researchers: Maria Chapin, Gail

Fowler, Aldo Rosario, Oluwabunmi Shabi

PRODUCTION COPY EDITORS: Lawrence Dack (Chief), Hallberg Hallmuddson,

Celine Keating, B. Kite, Robert S. Norman, Robert J. Rosenberg, Victoria

Rubin

ART: Jay Petrow, Steven Taylor (Deputy dirs.), Don Besom, Alice Cheung,

Andree Kahmorgian, Christine Silver (Assoc.), Peter Marshutz (Asst.)

Graphics & New Media: Arthur Eves (Creative dir.), Joan Danaher

(Graphics dir.), Rod Doyle (Assoc.), Jaime Beauchamp, Alan Baseden, Lisa

Krouse Braiman, Alberto Mena, Ray Vella (Illustrators), Eric Hoffmann

Imaging: Annette Farrell (Mgr.), Alan Bornzer (Asst.), Leo Nietzer, Joseph

[Name]

PHOTO EDITORS: Scott Myn (Deputy), Ronnie Weil (Sr.), Michael Hirsch,

Anne Murray, Andrew Popper, (Assoc.), Bettina Baudoin, Kathleen Moore

(Asst.), M. Margarita Eiroa, Lawrence Crowe, Sarah Greenberg (More

Researcher)

EDITORIAL OPERATIONS: Yvonne F. Rodriguez (Director), Wally Baudin,

Nicholas M. White (Mgrs.), Karen Butcher, Francisco Cardoza, Thomas R.

Dowd, Nancy Gores, Stephen R. Lebrun Jody A. LoGrasso, Jose L.

Martin, Peter K. Niceberg, Jane M. Parkinson, Laura Reissman, Karen

Turk, Ilse V. Walton, Barbara Wilhelm, Donald C. Pearson, Guillermo Ortiz

EDITORIAL TECHNOLOGY: Thomas L. Morgan (Director), Richard Balestrino,

David Bandler, Marie Bryant, Beth Higgins, James Kutz, Neil MacLeod,

John Navarro, Juan Rodriguez, Maria Skreila, Craig Stodrig, George White

BUSINESS WEEK ONLINE: Michael Mercurio (Managing ed.), A. Peter

Cleri, John A. Dierdorff, John Johnsrud, Dennis K. Berman, Nadav

Enbar Paul Eng. Patrick Lambert, Diane Young

CORRESPONDENTS: Atlanta: David Greising (Mgr.), Nicole Harris Boston:

William C. Symonds (Mgr.), Paul C. Judge, Geoffrey Smith Chicago:

Richard A. Melcher (Mgr.), Roger O. Crockett, David Leonard, Andrew

Osterland, DeAnn Weimer Cleveland: Peter Galuszka (Mgr.) Connecticut:

Susan Jackson Dallas: Wendy Zellner (Mgr.), Stephanie Anderson Forest

Detroit: Kathleen Kewin (Mgr.), Keith Naughton, Bill Vasic Houston: Gary

McWilliams (Mgr.) Los Angeles: Ronald Grover (Mgr.), Larry Armstrong (Sr.

correspondent), Steven V. Brull, Catherine Morris Miami: Gail DeGeorge

(Mgr.) Philadelphia: Amy Barrett (Mgr.) Pittsburgh: Stephen Baker (Mgr.)

San Francisco: Linda Himelein (Mgr.), Peter Burrows, Steve Hamm,

Robert D. Hof, Andy Reinhardt Washington: Owen Ullmann (Sr. news ed.),

Douglas Hartbrecht (News ed.), John Carey, Paula Dwyer, Howard Glickman

(Sr. correspondents), Amy Bonus, Stan Crock, Richard S. Dunham, Dean

Foust, Susan B. Garland, Paul Magnusson, Mike McNamee, Stephen H.

Widstrom (Tech. & You), Lorraine Woellert, Catherine Yang Frankfurt:

Thane Petersen (Mgr.), Mark Lowy Miller, David Woodruff Hong Kong:

Joyce Barnathan (Mgr.), Mark L. Clifford, Bruce Einhorn London: Stanley

Reed (Mgr.), Julia Flynn Mexico City: Ger. Smith (Mgr.) Moscow: Patricia

Kranz (Mgr.) Paris: Gail Edmondson (Mgr.) Rome: John Rossant (Mgr.)

Sao Paulo: Ian Kutz (Mgr.) Singapore: Michael Shar (Mgr.) Tokyo: Brian

Brenner (Mgr.), Robert Neff (Contributing ed.), Irene M. Kunin, Emily

Toronto:

EDITORIAL SERVICES: Broadcasting: Ray Hoffman Business Manager:

Barbara Boynton Information Services: Jamie B. Russell (Director),

Karen Stevens (Mgr.), Judi Crowe, Debra Dreskin, Fred Katzenberg,

Robert Koepel, Susan R. Rutledge, Barbara Silverbush Office Manager:

Roselyn Rooker Communications: Robert Pondisco (Director), Christine

Summers Readers Report: Yvette Hernandez Reprint Permission:

Janet Gonzalez

PUBLISHER

SR. VP. ASSOCIATE PUBLISHER: William P. Kupper Jr.

SR. VP. OPERATIONS

SR. VP. MARKETING & BRAND DEVELOPMENT: Harold K. Somerdyk

VP. CONSUMER MARKETING/CIRCULATION: Thomas Masterson

VP. STRATEGIC PLANNING & PRODUCT DEVELOPMENT: Kimberly Greer

VPS: SALES: Constance E. Bennett (Internat. acc.), Joanne K. Bradford

(Western Region), Dan Dunn (Midwestern Region), Robert H. Kelly

(Southeast Region)

VP. STRATEGIC PROGRAMS: James H. McGraw IV

VP. SALES DEVELOPMENT: Mark A. Flinn

VP. MANAGING DIRECTOR/ASIA: Stephen B. Moss

VP. MANAGING DIRECTOR/EUROPE: Fritz Krusebecker

VP. TECHNOLOGY: Thomas J. Reed

VP. CONTROLLER: Bernard J. Drackwicz

DIRECTOR, ADVERTISING BUSINESS: Linda F. Carvalho

DIRECTOR, PRODUCTION & SALES SERVICES: Mario J. Talluto

EDITOR'S MEMO

LEWIS H. YOUNG, 1924-1998

It was the spring of 1969. Richard M. Nixon was President, the Vietnam War was raging, and the Dow Jones industrial average was hovering at 950 or so. On May 1, Lewis H. Young became editor-in-chief of BUSINESS WEEK, beginning a run that lasted 15 years, the longest in our nearly 70-year history. I'm sad to report that Lew died on June 12 at age 73.

During Lew's tenure here, BUSINESS WEEK experienced rapid growth, fortifying its position as America's best-selling business magazine. With an eye for news, he substantially upgraded the magazine's coverage of Corporate America, never flinching from the tough story when it was appropriate. Perhaps his greatest contribution was to anticipate two of the far-reaching trends of our time: the technology revolution and the globalization of business. He expanded our international bureau system, especially in Asia, and launched a weekly department called Information Processing—making BUSINESS WEEK the first noncomputer publication to cover the nascent

industry on a regular, in-depth basis. Lew's aggressive brand of journalism helped the magazine win four National Magazine Awards, including two for general excellence, the magazine equivalent of the Pulitzer Prize.

In 1982, Lew was named chairman of Catalyst, the nonprofit group that helps women in business. It was a cause he deeply believed in.

Upon retiring from BUSINESS WEEK in 1984, Lew embarked on a second career. After a brief stint as president of Diebold Group, an international management consulting firm, Lew turned his interest in Asia into a publishing venture. He spent three years living in Hong Kong, where he started the magazine *Far East Business*. In 1989, he joined Cahners Publishing Co., an affiliation that lasted until his death.

Lew left his mark on all of us who knew him. He was one of the great men of business journalism.

Stephen B. Shepard
Editor-in-Chief

A CLOSER LOOK AT GE AND JACK WELCH

Your article "How Jack Welch runs GE" (Cover Story, June 8) shows why so few fully understand General Electric Co.'s achievements. The most important constant in GE's success equation has been the unending effort at de-bureaucratizing every facet of the operation. GE's people around the globe have

achieved fantastic creativity, yielding enormous profits because of recognition by everyone that there is no limit to what can be accomplished if the ideas are shared throughout the company—and if the obsolete trappings—"management" (turf, layers, "noted-here syndrome," and other senseless) are relegated to the garbage can. Richard Sunnyval

Business Week

A Division of The McGraw-Hill Companies

JUNE 29, 1998 (ISSN 0007-7135)*** 3584

Postmaster: Please send address changes to Business Week, P.O. Box 517, Hightstown, NJ 08520. Second-class postage paid at Hightstown, NJ, and at additional mailing offices. Postage paid at New York, NY, and at additional mailing offices. POSTMASTER: Please send address changes to Business Week, P.O. Box 517, Hightstown, NJ 08520. Second-class postage paid at Hightstown, NJ, and at additional mailing offices. POSTMASTER: Please send address changes to Business Week, P.O. Box 517, Hightstown, NJ 08520. Second-class postage paid at Hightstown, NJ, and at additional mailing offices.

For a complete list of Business Week publications, please contact: Business Week, P.O. Box 517, Hightstown, NJ 08520. Telephone: (609) 426-2343. For a complete list of Business Week publications, please contact: Business Week, P.O. Box 517, Hightstown, NJ 08520. Telephone: (609) 426-2343.

For a complete list of Business Week publications, please contact: Business Week, P.O. Box 517, Hightstown, NJ 08520. Telephone: (609) 426-2343. For a complete list of Business Week publications, please contact: Business Week, P.O. Box 517, Hightstown, NJ 08520. Telephone: (609) 426-2343.

joyed your article on Jack Welch's impressive management style abilities. How unfortunate it is, that a man of his considerable refuses to clean up the PCB pollution that General Electric dumped in the Hudson River in the 1950s and 1960s. Imagine how much greater they would be if he spearheaded the removal of corporate environmental liability.

Francis Pio Ruggiero
Milford, Pa.

On the inside door of my refrigerator is emblazoned with the GE trademark and the words "Symbol of Remark of Reliability." You bet. My 1966 refrigerator still runs reliably. I bought a 1986 GE refrigerator that was 17 years and two months after its purchase. When I inquired about repair at a service depot manager pointed out a row of similar dead soldiers out of which I fitted with an infamous GE compressor like mine. It would be more to repair the refrigerator than to replace it. When I came to the company, I got a firm price and a \$75-off coupon valid for toward the purchase of a new refrigerator. Would that I had instead purchased General Electric stock rather than purchased one of its products!

Thomas A. Burns
Arcata, Calif.

BORDER NEEDS MORE SCREENING, NOT LESS

In an article titled "This drug hunter bruises the border" (Up Front, June 8), the large-scale screening machines in use at the border have resulted in the capture of illegal drugs. The seizure of cocaine in three years, worth over \$260 million, was seized at the U.S. border using mobile X-ray de-

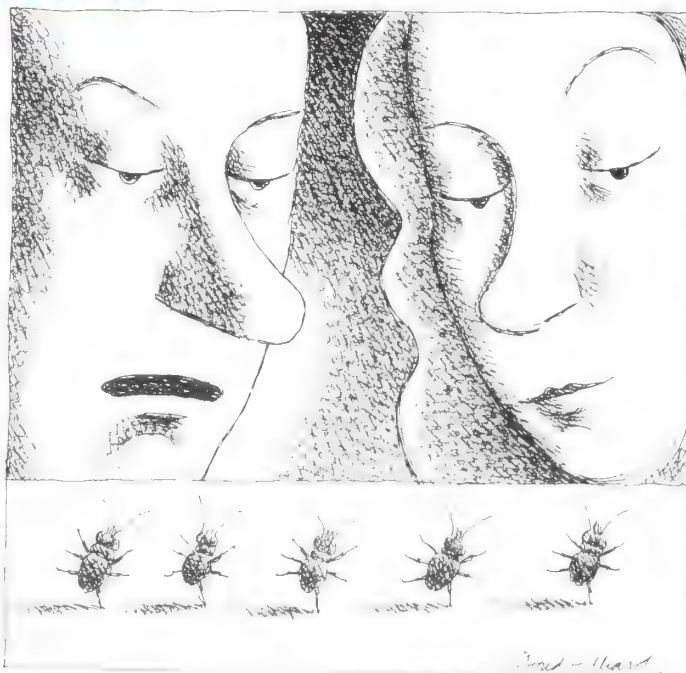
tection equipment from American Science & Engineering Inc.

The truth is that more—not less—deployment of X-ray inspection technology on the border, combined with every other available means of detecting illegal drugs, will help protect us from this epidemic.

Ralph S. Sheridan
President and
Chief Executive Officer
AS&E
Billerica, Mass.

WHY RED TAPE MAKES SUVs MORE DANGEROUS

In "When air bags aren't enough" (Social Issues, June 8), you list several plans for reducing the threat that trucks and sport-utility vehicles pose to motorists in cars. These options tend to be costly or highly regulatory. A simpler solution that does not offend the free market would be to level the playing field between cars and trucks by reforming all federal regulations that



"I have a feeling, Edna, that if we had gone with that Williams network, these bugs would've been worked out beforehand."

REVISIONS & CLARIFICATIONS

In an article titled "McDonald's to crunch on at General Mills" (Wall Street, June 15), the earnings report for General Mills Inc. by William McDonaldson, Lufkin & Jenrette Inc. for 1998 and 1999 were inadvertently each raised his fiscal 1998 estimate of \$3.15 a share to \$3.21, and his fiscal 1999 estimate from \$3.40 to \$3.55.

In an article titled "Cyberspace win-win: they did it," (Information Technology, June 22) misstated the results of the Harris Poll. Reaching the Internet directly was described by 43% of respondents as a major benefit of doing business online.

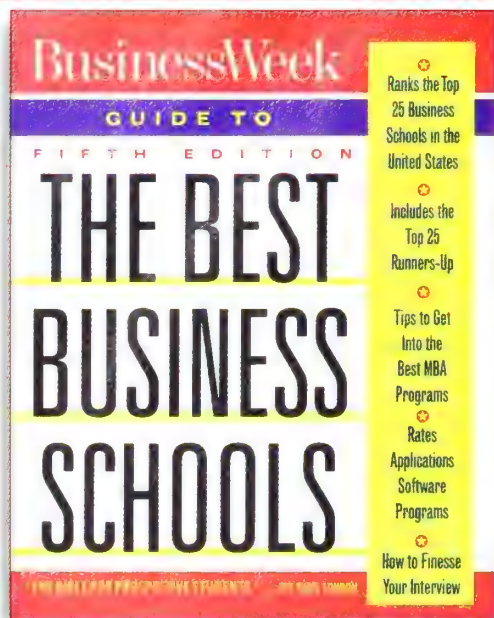
that **Williams** network



Take a spin on our web at www.willtales.com, or call 1-800-WILLIAMS for superior telecom solutions

©1998 The Williams Companies, Inc.

Looking at B-schools? Make this your *first* choice



The *only* guide to feature accurate business school rankings and profiles by recent graduates and recruiters

- **NEW!** Expanded ratings of more schools than ever
- **NEW!** Rankings of GMAT prep courses
- **NEW!** Comparisons of application software
- **PLUS!** Candid comments from the latest graduating classes, students' quality-of-teaching ratings, starting salary & bonus averages for graduates, and much more



Available at bookstores everywhere
Visit us on the Web at www.books.mcgraw-hill.com

McGraw-Hill

Get the latest advertiser info.

Check out

BizLink

www.businessweek.com/BizLink/

on page 142

Readers Report

make the heavy-hitter vehicles especially inexpensive compared with

Federal regulations draw inexpensive distinctions between passenger cars and trucks by way of federal gas-guzzler taxes, luxury taxes, safety regulations, emissions regulations, and fuel-economy standards. This has made the heavy vehicles unnaturally attractive to chasers and has added thousands to the cost of each car, squeezing some buyers into lighter, less safe cars. Meanwhile, trucks are free of even the most common sense, such as bumper height regulations. Eliminating the arbitrary distinctions between vehicles that are driven on the same roads for the same purposes, and this "problem" should begin to diminish.

Bennet K. Lamm
National Motorists
Oregon Chapter Coordinator
Portland

FINDING US ONLINE

BusinessWeek ONLINE

The full text of Business Week, the Business Week Daily Briefing, and seven years of BW archives are available on the World Wide Web at:

www.businessweek.com

and on America Online at Keyword: BW
To sign up for BW on AOL, call (800) 641-4343 and mention Business Week.

maven

Shopping for computer equipment? Visit Maven online Computer Buying Guide, for continually updated ratings and price information. Go to Keyword: Maven on America Online or to the World Wide Web at:

www.maven.businessweek.com

HOW TO REACH BUSINESS WEEK

LETTERS FOR READERS REPORT

All letters must include an address and daytime/evening phone numbers. We reserve the right to edit letters for clarity and space and to use them in electronic and print editions.

Mail: Business Week, 1221 Avenue of the Americas, 39th floor, New York, NY 10020

Fax: (212) 512-6458

Internet: bwreader@businessweek.com

America Online: readersbw

SUBSCRIBER SERVICES

For individual subscriptions, corporate subscriptions, renewals, changes or problems, and single copies: Phone: (800) 635-1200 or (609) 426-7500 Fax: (609) 426-7623

Internet: bwcustsv@businessweek.com

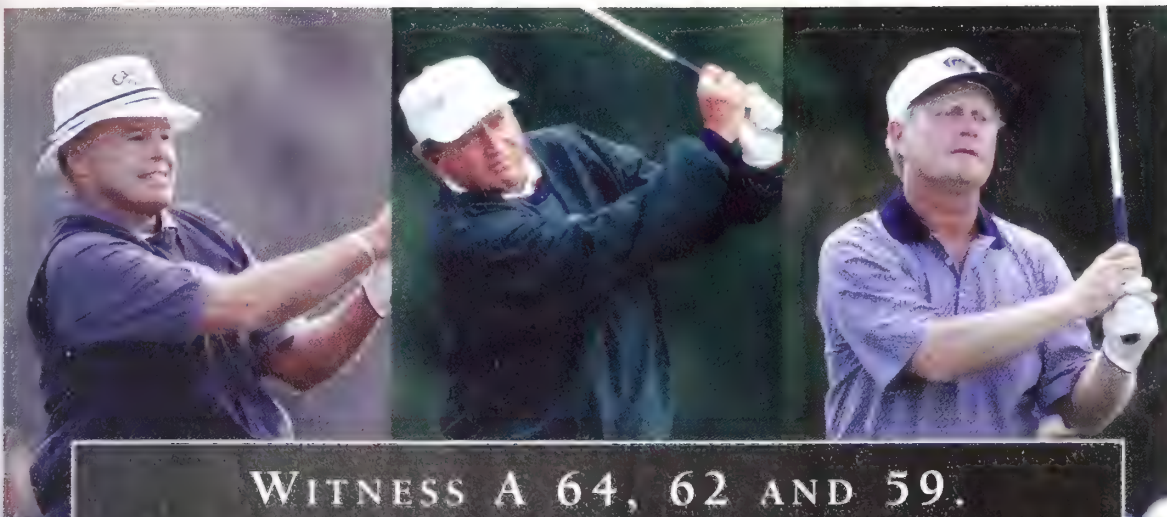
REPRINTS AND COPYRIGHT PERMISSIONS

For custom reprints (minimum order 1,000) call: Phone: (212) 512-3148

Internet: www.businessweek.com/reprints/

For all other permission or reprint inquiries call: Phone: (212) 512-4801

Fax: (212) 512-4938



WITNESS A 64, 62 AND 59.
AND SOME GOOD GOLF SCORES, TOO.



SENIOR PLAYERS
CHAMPIONSHIP

JULY 6-12

CALL (800) 868-7564 FOR TICKET INFORMATION

**Tune-In
Information**

THURSDAY, JULY 9, 3-5 P.M., ESPN

FRIDAY, JULY 10, 3-5 P.M., ESPN

SATURDAY, JULY 11, 1:30-2:30 P.M. & 5-6 P.M., ABC

SUNDAY, JULY 12, 5-7 P.M., ABC

THESE GUYS ARE GOOD.





[REDACTED]

IBM security [REDACTED]

[REDACTED] gives thousands of companies

[REDACTED]

[REDACTED]

[REDACTED] the power to distribute sensitive information [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] over networks and the Web,
while controlling who sees what. [REDACTED]

[REDACTED]

[REDACTED] IBM security [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] helps protect [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] millions of online financial transactions every day.

IBM security [REDACTED]

[REDACTED]

[REDACTED] can help you protect your e-business [REDACTED]

[REDACTED]

To see how [REDACTED] call 1 877 IBM EBIZ(3249), ext. NC40

[REDACTED]

[REDACTED]

[REDACTED] www.ibm.com/e-business

Solutions for a small planet™



SUMMERTIME-AND THE PAGES ARE TURNING

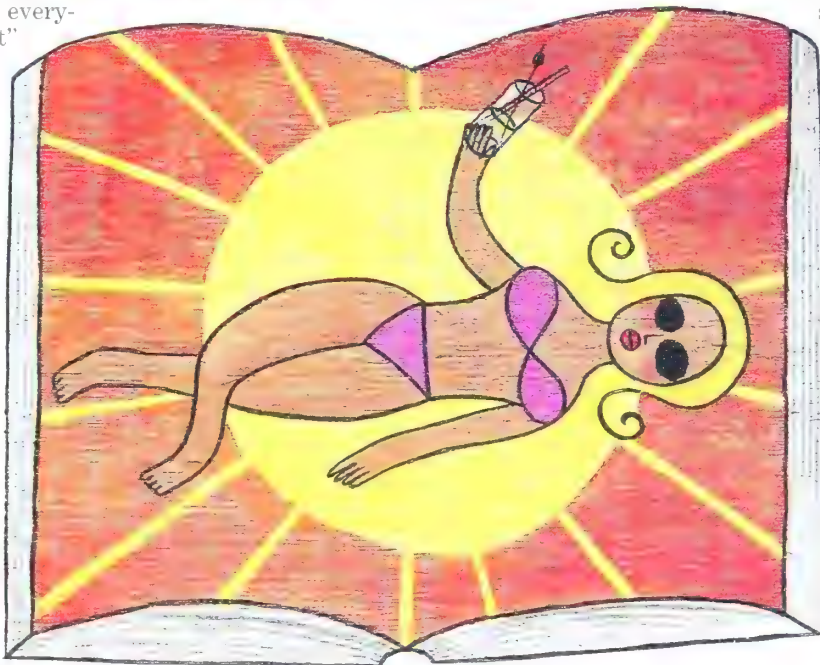
Whether you're headed for the beach or the mountains, a foreign port of call or just a weekend at home, you'll want one of those palm-size, nondigital information devices—otherwise known as a book. And here to help you figure out which volumes to consider is BUSINESS WEEK's annual summer paperback roundup.

A good place to begin might be science fiction—or is it science fact? Imagine a world in which everyone wears a "bodynet" equipped with a host of tiny silicon chips and eyeglasses that provide video displays. People can check E-mail or make purchases while walking down the street. And the bodysuits' virtual-reality capability will, among other things, make it possible for couples to engage in sex at long distance over the Internet. Sound farfetched? It's all on the way, says Massachusetts Institute of Technology computer scientist Michael Dertouzos in *What Will Be: How the New World of Information Will Change Our*

Lives (Harper San Francisco, \$14). Most important, though, says Dertouzos, the ubiquitous computers—hooked to a wireless, global, multimedia Internet—"will rebuild the notion of community, this time among millions of people." BUSINESS WEEK reviewer Otis Port said Dertouzos "maps out the future with the authority of someone who has been within the computer revolution from the beginning."

Technology is also the focus of Edward Tenner's *Why Things Bite Back: Technology and the Revenge of Unintended Consequences* (Vintage, \$13). Here, the focus is on techno-follies—or in the author's words, "revenge effects." DDT, for example, was hailed as the ultimate pesticide but later proved harmful to

humans as well as to bugs' natural predators. Its widespread use also led to the evolution of "superbugs," resistant to DDT. Things bite back, says Tenner, who is now an affiliate of the Geosciences Dept. at Princeton University, because humanity seeks to subdue nature rather than live with it. Observed reviewer Peter Coy: "Tenner goes beyond listing the excesses of technology: He grapples with solutions."



From scintillating biography to tales of grasping admen and vengeful corporate victims—this year's roundup of vacation picks has it all

Another problem solver—albeit one who admits to a number of defeats and miscalculations—is former Labor Secretary Robert B. Reich. In his *Locked in the Cabinet* (Vintage, \$13), Reich describes his experience as the sole "progressive liberal" among the President's economic advisers. The ex-Secretary pokes fun at everyone from former AFL-CIO President Lane Kirkland to former Sunbeam Corp. CEO Albert J. Dunlap to himself. Some of these targets—and

some journalists—have poked back, charging that Reich fabricated events and dialogue. In response, Reich made revisions in the paperback edition and warns that his quotes "shall be considered paraphrases rather than verbatim accounts." All in all, fountaineer Paul Magnusson, "*Locked in the Cabinet* surpasses most recent tell-all books both in its prose and its consideration of intellectual questions.

Equally absorbing is Katharine Graham's *Personal History* (Vintage, \$13). The *Washington Post* publisher's memoir, recently awarded a Pulitzer Prize, weaves together three stories: her own life, an insider's history of the *Post*, and a tale of the dramatic transformation of American journalism during the 20th century. The product of a

family, the author attended Swarthmore College and then Harvard University of Chicago. She toured Europe, worked as a labor reporter before marrying Phil Graham, the *Washington Post* lawyer who managed the paper after his father had bought it. After Phil's death in 1963, Katharine took over the paper, presiding over the paper during the breaking of the Watergate scandal and over the company's emergence as a financial success. Concerning Howard Gleckman's *Personal History* is "a fascinating tale of a truly extraordinary life."

Another kind of empire-building is the subject of *Conflict in*

counts: *The Creation and Crash of Saatchi & Saatchi Advertising Inc.* (Touchstone, \$14) by former *Wall Street Journal* reporter Kevin Goldman. The book is a blow-by-blow story of how the brothers Charles and Maurice Saatchi built a tiny ad agency into a giant under to feed their egos—then help destroy it after they were booted for irresponsible behavior. In the early 1980s the duo began an acquisition binge, issuing new shares of stock to

Thank you

„We in Berlin have not been called upon to proclaim that we are against this or not in favour of that, but to show the world what we stand up for! This is what we decide our future.“

Eberhard Diepgen
Former Mayor of Berlin



celebrating the 50th Anniversary of the Airlift. Supporting you, Berlin.

DAS NEUE  Berlin

No new Berlin without you.

The Allied Forces secured the survival of West Berlin's citizens from 1948 to 1949 by implementing the Berlin Airlift. During the blockade, cargo planes flew a total of 277,246 flights into Berlin, delivering over 2 million tons of food and supplies. Today, 50 years later and surrounded by a new European geography, Berlin has become a gateway to new opportunities and new markets.

It is the aim of Deutsche Bank to motivate people to tackle the future with the same enthusiasm, courage and sense of community as was shown by the remarkable people involved in the Berlin Airlift.

The Bank for Europe

Deutsche Bank



smaller agencies. They had raised \$1 billion to acquire 37 companies by 1986. But a failed bid for—of all things—Britain's fourth-largest bank, combined with a severe recession and profligate spending, led to near-bankruptcy, vicious board infighting, and the brothers' departure. In the end, the original company was split in half, and the Saatchis were left running their own new operation, M&C Saatchi—a confusing situation for all concerned. Reviewer Paula Dwyer advocated that board members read the book as “an example of how not to govern” but added: “Others can just enjoy this incredible tale for its pure entertainment value.”

Of course, not all business books are so entertaining—and summer is no time for heavy eyelid lifting. Bite-size pieces may be just the thing, as in management guru Peter F. Drucker's **Managing in a Time of Great Change** (Plume, \$14.95). The work has remarkable breadth: In 27 separate articles, Drucker explores everything from China's growth markets and the reinvention of government to how modern retailers have redefined their business. This, the author's 28th book, “is a welcome addition to the formidable library of Drucker thought,” reported John A. Byrne.

Tantalizing, too, is **The Economics of Life** (McGraw-Hill, \$14.95), a collection of 1992 Nobel laureate Gary S. Becker's monthly Economic Viewpoint columns from *BUSINESS WEEK*. Demonstrating his talent for extending the frontiers

porter Freedman considers how adherents of Democratic liberalism have gravitated toward the GOP over the decades. “The Democrats' abandonment of working-class ethnics is an old story, perhaps, but Freedman's family portraits make the point far more vividly than a stack of poli-sci textbooks,” observed reviewer Paul Magnusson.

Another monumental shift is the subject of William Greider's **One World, Ready or Not: The Manic Logic of Global Capitalism** (Touchstone, \$15). Here, the *Rolling Stone* national editor paints a scary picture of a world ruled by self-interested multinational



And if you're looking for a greater understanding of Asia, check out historian Bruce Cumings' revisionist **Korea's Place in the Sun: A Modern History** (Norton, \$17.95). Among Cumings' novel assertions: South Korea's rise from poverty to prosperity was not an “economic miracle.” North Korea is a rogue state like Iran but a politically stable, neo-Confucian kingdom. But war, reunification will happen only after a prolonged period of regional freedom from external meddling. *Korea's Place in the Sun*, said reviewer Mark L. Ford, is “essential reading for anyone interested in an important, dangerous and volatile country whose emergence from its cold war impasse is only a matter of time.”

But enough serious stuff—it's summer, the season virtually synonymous with baseball. And some of the best ever was played under the watchful eyes of Roger Kahn, who in the 1950s covered the Brooklyn Dodgers and the New York Yankees and Giants. Kahn's reporter for *The New York Herald Tribune* and other publications. Kahn lives those halcyon days in his **Memories of Summer: When Baseball Was a Game and Writing About It Was a Game** (Simon & Schuster, \$12.95). The author guides through his private memories of his sportswriting career. But what we really want to hear about are the players and the players' lives. There, too, he delves into *Memories of Summer*, which is “chock full” of wonderful

baseball stories, said reviewer Stephen Baker, tales that “let us know how great baseball used to be.”

But many things used to be different. Burke Devore might say. Devore, a fiftyish, laid-off middle manager with two kids to support, is the central figure in Donald E. Westlake's farcical **The Ax**. Devore, though, doesn't pine for the past—he sets out to prove things, starting with his own market. His tools? A list of job-hunters with similar skills and an unregimented Luger. “I'm not a murderer,” he tells his sons. “What I'm doing now I was into, by the logic of events; the holders' logic, and the executives' and the logic of the marketplace.” Reviewer Marc Miller found that even though the “blow-by-blow is gross,” the satirist's “comic perversity,” as demonstrated in such previous works as *Trust Me*, remains intact. There are plenty of chills to counteract the heat of summer.

COMPILED BY HARDY RAY

GIVEN IS *BUSINESS WEEK'S* Books

For bite-size chunks of business wisdom, dip into the essays of management guru Peter Drucker or Nobel laureate Gary Becker

of economics, Becker ponders such questions as: “Why not let immigrants pay for speedy entry?” and “Why don't we value schooling as much as the Asians do?” He terms the National Collegiate Athletic Assn.'s policy against paying college athletes a “serious restraint of trade.” Becker says he began writing his columns both to influence public policy and to reach a broad audience. In these pieces, the real world is very much at hand.

How do ideas about economics win broad public support? A key factor, suggests Samuel G. Freedman, is whether or not they resonate with people's experience. In **The Inheritance: How Three Families and the American Political Majority Moved From Left to Right** (Touchstone, \$15), former *New York Times* re-

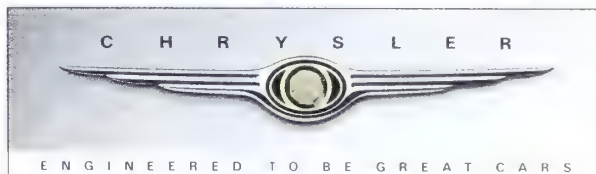
corporations and investors, all vying to earn high returns by opening yet another factory in yet another emerging economy. The pursuit of labor-saving technology, he says, is leading companies “to invest in more output of goods than the global marketplace of consumers can possibly absorb.” People will be debating for years whether this overinvestment caused the collapse of Asia's economies, but Greider certainly illustrates some of the dislocations that free trade can breed. While objecting to “Greider's proposed remedies, including imposing tariffs and other restrictions on international trade and investment flows,” reviewer William Glasgall found that the author “has assembled a coherent and surprisingly easy-to-read series of arguments.”

Everything you expect in a luxury car.



Well, not everything. It's just \$18,995.*
The 1998 Chrysler Cirrus.

There are cars that are built to appeal to your passionate side—and to your practical side. The 1998 Chrysler Cirrus. For the passionate side: ■ fully independent suspension ■ multi-valve V6 engine ■ speed-sensitive steering ■ air conditioning with rear-seat vents ■ premium six-speaker sound system ■ power windows, mirrors and door locks ■ cab-forward design with room for you and four friends ■ and, at no extra charge, a new, luxurious, glove-soft leather-trimmed interior ■ and eight-way power driver's seat. Now for the practical side. The new 1998 Chrysler Cirrus LXi, with all this, is just \$18,995.* Now that's unexpected. Call 1.800.CHRYSLER for details.



BY STEPHEN H. WILDSTROM

EASIER E-MAILING ON THE ROAD

Travelers are finding some hotel rooms and airports wired for fast hookups to the Net

When I check into a hotel on a business trip, one of the first things I do is plug my laptop into a phone jack to get my E-mail. Too often, the experience goes something like this: On the first attempts, the modem squawks and squeals but doesn't connect with my remote-access server. On the third try, I manage to log in, but my modem chugs along, and if I'm lucky, I'll retrieve all of my messages before I lose the connection.

In my ideal world, my modem is replaced by the same card used to link computers into office networks. I plug into a wall jack and instantly get a high-speed connection to the Internet. The good news is that the technology to do this is here today. Unfortunately, it will be a while before it is widely deployed in hotels, airports, or other road warrior hangouts. And even then, people needing access to servers and post offices protected by company firewalls may be limited to browsing the public Web.

In principle, wiring hotels for the Net is simple. In new construction, it's cheap and easy to pull extra phone cable to rooms and set up a network using inexpensive hubs and

routers. Retrofitting older hotels may not be much harder. CAIS Internet in McLean, Va., has a system called Over-Voice that lets Internet data share existing voice telephone wiring. The company puts installation cost at about \$200 per room.

Hotels aren't in the networking business, so the administration of Internet access will be handled by third parties. ATCOM/INFO (atcominfo.com), working with Microsoft, has developed a system called IPORT that lets an Internet service provider offer hotel access and bill the charges—typically a flat rate of \$9 or \$10 a day—to a guest's bill or directly to a credit card. A similar system can give fast

Net connections, billed by the hour, in airports or other public places. A variation will provide Web

and E-mail access through terminals using hotel-room cable TV.

The system is being tested in 11 hotels, with large-scale installations planned later this year. I tried the system at the Washington Marriott and found it very easy to use. More laptops, because they are used for the office as well as on the road, already have the necessary network card. And Denise Durgin, marketing manager for the Washington Marriott, says guest response to the trial has been "overwhelmingly positive." The hotel, she says, will soon begin marketing Internet access as a value-added service that "makes it easier to do business while on the road."

SECURITY BARRIERS. Many corporate travelers, however, are going to run up against security barriers designed to block access to internal networks from the Internet. A technique called virtual private networking can be used to give remote users secure access to company systems through the Net, but it is new and not yet widely used. Stan Julien, hospitality industry marketing manager for Microsoft, predicts that corporate infotech managers will embrace the new technology for one simple reason: "Virtual private networks generally produce a 50% savings over dial-up in the cost of supporting mobile forces."

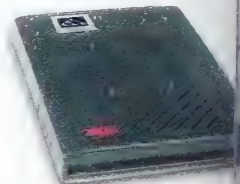
I'm not throwing my modem away yet. But I'm adding a network card to my traveling kit, and I expect more laptop makers to follow Apple and Hitachi and build special ports into their notebooks. The advantages of network links are too compelling, and I can't wait for the day when I connect as easily on the road as I do at the office.

BULLETIN BOARD

HARDWARE

ADDING ZIP TO LAPTOPS

Imation SuperDisk Zip drives, are becoming commonly offered options on laptops. But if you have an old notebook and would like the convenience of a high-capacity floppy drive, consider the new \$249 Zip Mii drive from

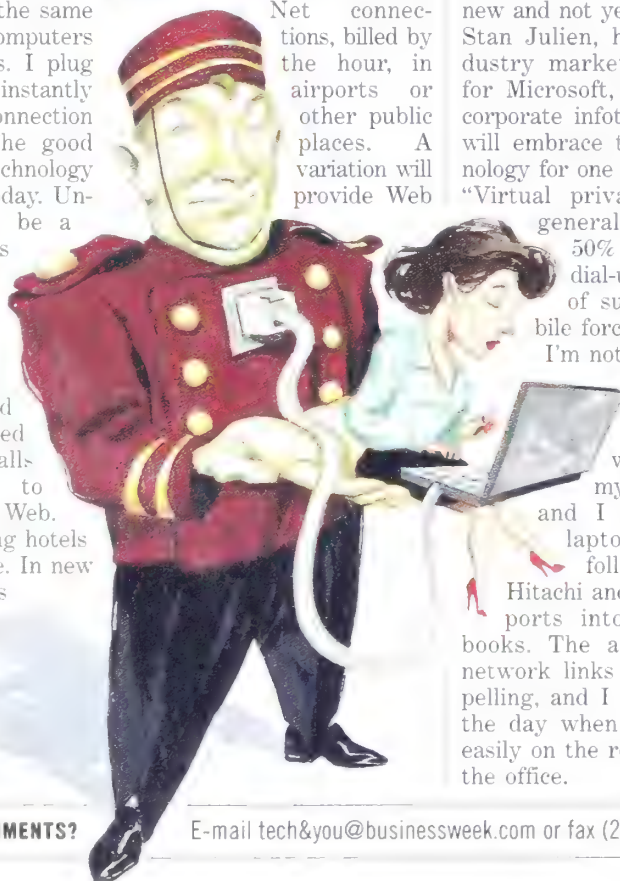


Microtech International (202) 220-9489 or 203 468-6222. The drive, which weighs 1.5 ounces and is 1/2 inch thick, plugs into a PC card slot on a Win95 laptop. It draws power from the computer, so batteries or external power supplies aren't required. Installation is plug-and-play, and the drive can be attached and removed without shutting down or suspending the laptop.

SOFTWARE

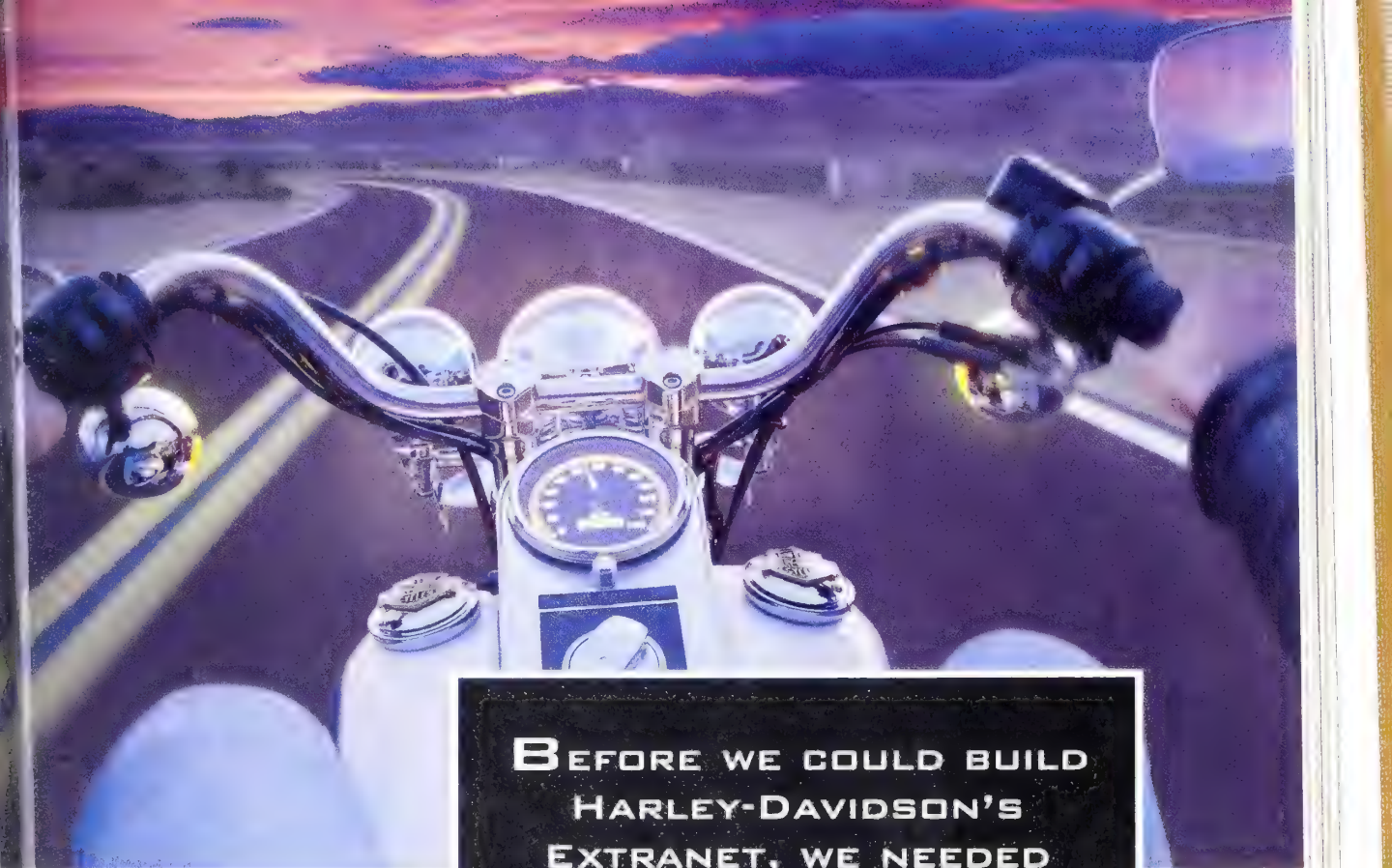
DIGITAL DARKROOM

There are lots of image-editing programs on the market, but for pros and serious amateurs, Adobe Systems Photoshop is the overwhelming favorite. The newest version, Photoshop 5.0, for Macintosh and Windows 95/98/NT, has several features, the most useful being the ability to back through every change you have made to an image. Earlier versions offered a single-step undo command. Photoshop demands a lot of effort on the part of those who want to master its vast array of functions, and at \$600 (\$180 as an upgrade) it's surely not cheap. But for the ultimate digital dark-



QUESTIONS? COMMENTS?

E-mail tech&you@businessweek.com or fax (202) 383-2125



**BEFORE WE COULD BUILD
HARLEY-DAVIDSON'S
EXTRANET, WE NEEDED
TO GET A BETTER FEEL FOR
THEIR BUSINESS.**

*How do you cut a
warranty claims process from
three weeks to three days?
With Microsoft's technology
and USWeb's expertise.*

Harley-Davidson[®] had 600 dealers and a huge paperwork headache to deal with. Warranty claims were taking too long and their dealers were paying the price.

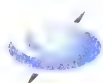
They could have chosen any number of companies to help them, but they came to USWeb. Why? Because of our strategic expertise, technical knowledge and proven track record. And our partnership with Microsoft, a leader in Internet technology.

Together, we developed an Extranet that cut Harley-Davidson's warranty claims process from three weeks to three days. Now dealer satisfaction is up because Harley has given them another tool to improve the way they do business with the factory.

Harley-Davidson, Chevron, Polk Audio—these are just a few of the varied companies who've turned to USWeb to gain a competitive edge. And we can do the same for you. We provide custom business solutions—from strategic consulting to architecture planning through complete implementation. Whether it's for an Internet, Intranet or Extranet.

Learn how USWeb can be your strategic partner for the information age. Give us a call or visit our Web site.

For a free Intranet Planning Pak:
1-888-USWEB-411, EXT.72
www.usweb.com



USWEB



Microsoft

BY GARY S. BECKER

WHAT'S WRONG WITH A CENTRALIZED EUROPE? PLENTY



OFF COURSE:
Uniform taxes
and regs mean
governments
compete less
for business—
which helps
unions, indus-
try, and other
interest groups
retain power

Many political leaders in Europe consider the euro to be a major step toward greater concentration of power by European Community bureaucrats in Brussels. I fear that further centralization of power would be bad for their economies by reducing the competition among governments for business.

It is often claimed that government competition should be avoided because it produces a "race to the bottom," with companies discouraging regulations and taxes by threatening to move to more pliable nations. Although migration of business sometimes does limit the ability of states to implement the right policies, there is little evidence that European taxes and regulations have been kept down excessively by intergovernmental competition. The average European country devotes about half its gross domestic product to the public sector, far more than enough to support proper government activities. It also extensively regulates business, labor markets, and other activities.

LINGUA FRANCA. For example, these nations heavily penalize companies that reduce employment, and they have promoted union demands for rigid, centralized labor negotiations rather than more flexible local bargaining. Indeed, such excessive regulation of the labor market, combined with high taxes on labor, help explain why unemployment in Western Europe remains above 11% despite the healthy upturn in output during the past year, and why private employment has hardly grown in 20 years.

However, unions, industries, and other powerful groups are worried by the strong trends in Europe during the past couple of decades toward greatly increased mobility of capital across borders. It has become much easier for capital to choose the most favorable location in the European Community.

Labor mobility is also increasing, because citizens can now take jobs anywhere in the common market and are usually taxed by the country of employment rather than of citizenship. Moreover, the growth of English as a common language among more educated Europeans has made it easier for them to hop borders to work.

This greater integration of capital and labor markets has strengthened the competition among member nations for business. In this way, London has become the most powerful fi-

nancial center in Europe because regulations on financial transactions, and income and other taxes, are lower in Britain than in France, Germany, and other countries. Many financial investment and stock companies they can reduce costs and increase flexibility by locating their activities in London.

A doctoral study being done by Jeannette Sun, a graduate student at the University of Chicago, suggests that the trend toward global capital markets has forced nations to reduce taxes and regulations on stock transactions. Companies now have the ability to choose to raise equity and float bonds in countries with relatively low taxes and few other regulations on financial transactions.

WEASEL WORD. The increased competition among European governments for business helps explain why such interest groups as unions and steel companies, along with politicians, are keen on further harmonization of policies. Politically powerful groups more easily preserve their privileges if the capacity of these governments to compete against each other is weakened.

Harmonization in this context is a word that really means centralization of power and regulatory authority by imposing uniform rules and taxes on member nations. Examples include the efforts by the British authorities to have all member nations standardize dividends and capital gains at the same rates, and to have uniform value-added taxes on markets, and have uniform value-added taxes.

Competition among states in the U.S. business and labor has also weakened the power of interest groups to impose their will over state governments. The U.S. economy is fortunate in having more highly mobile capital and labor than Europe. Resources can easily move out of the most excessively regulated and taxed states into those with attractive economic environments.

Still, the U.S. would also be better off decentralizing further and encouraging competition among states. This can be accomplished by further devolution of regulatory and taxing powers toward state governments and away from the federal government.

Competition among nations tends to produce a race to the top rather than to the bottom by limiting the ability of powerful interest groups and politicians in each nation to impose their will at the expense of the interests of the vast majority of their people.

Gary S. Becker, the 1992 Nobel laureate, teaches at the University of Chicago and is a Fellow of the Hoover Institution

How do you fly free in the US? Go to Asia.



Now a trip to Asia has more to offer you even after it's over, thanks to Northwest Airlines and VISA.

Because now through August 31st, whenever you travel First or World Business Class to Asia on Northwest Airlines and pay for the ticket with your VISA® card, you'll also get a domestic roundtrip ticket absolutely free.



And with more nonstop service to Asia than any other airline, the only problem you may have is deciding from among the hundreds of U.S. destinations to discover using your free ticket.

To enroll in this promotion call Northwest Airlines at 1-800-508-2000, ext. 1478 before your trip or by July 25th and pay with your VISA card.

Use your VISA® card to purchase one roundtrip First or World Business Class™ ticket to Asia on Northwest Airlines and get a roundtrip domestic ticket free.

For reservations or to become a WorldPerks member call 1-800-447-4747, book online at www.nwa.com or call your travel agent today. It's that easy.



1-800-447-4747 www.nwa.com

*Class fares roundtrip flights from the US or Canada to Asia or Mexico as a Traveler's Choice award. Please allow up to 10 weeks after completion of qualifying travel to receive award. Limit to one award per WorldPerks member.

© Northwest Airlines 2000. 3699-51-44-5499. Other Northwest Airlines and Northwest Airlines partner flights are not permitted. A Saturday-night stay is required. Reference Code: GNWP VISA WBC.



Visio Standard 5.0

SAVE A THOUSAND WORDS.

With Visio® Standard 5.0, you can easily put the power of visual communication to work for you. Illustrate marketing strategies or sales plans with easy-to-understand diagrams. Explain complex processes with detailed flowcharts. Get head counts approved with org charts. And only Visio Standard, the leader in business diagramming, makes creating polished diagrams this easy; just assemble them using pre-drawn SmartShapes® symbols. Even drop your diagrams into Microsoft Word, PowerPoint, Excel, or e-mail. At under \$150, plus a 60-day money-back guarantee, all you have to lose is a thousand words. For information call 1-800-24-VISIO, reference A424, or check out www.visio.com/savewords.



Product Positioning Map



Visualize your business™



BY GENE KORETZ

INEQUALITY, CANADIAN-STYLE

The income gap hasn't widened

A common view is that rising income inequality is an unavoidable price that the U.S. has had to pay to thrive in a global economy characterized by strong competition and shifting technology. Since the same winds of change have affected Canada, which is highly integrated with the U.S. economy, one might think that the same trend toward inequality would have surfaced there—even though Canada has always been

the widely reported decline of the middle class was apparently arrested in both countries. The researchers report that the share of workers with pay in the middle range (within 25% of the median) actually rose between 1985 and 1995, after falling in the decade before.

The real story, however, is the stark contrast in what has been happening to aftertax family incomes compared with individual wages. Both countries have sought to cut taxes and social-welfare spending, but the study shows that family-income inequality in Canada declined from 1974 to 1995. In the U.S., meanwhile, it grew more pronounced.

In particular, real disposable incomes of the bottom 10% of families improved appreciably in Canada and deteriorated in the U.S. At the same time, incomes of the top 10% of families have surged in the U.S. and lagged in Canada.

Moreover, a sizable share of Canadian families have been holding their own economically. Although the average family income in purchasing power terms is higher in the U.S., close to half of Canadian families in 1995 (the bottom half in the income spectrum) still came out ahead of their counterparts to the south. And that's not counting the medical benefits Canadians receive from a publicly funded health-care system—benefits for which many American families have to fork over big bucks.

only 33% within 1½ hours, and just 50% within two hours.

Boston, of course, is not alone. Many other cities such as Detroit and Atlanta have trouble getting recipients to potential job sites. How to overcome such hurdles? Among other things, the study suggests that local authorities consider adapting transit systems to provide flexible routing, auxiliary transit services, extended schedules, modified routes, and day-care services at transit stations.

STOP FRETTING ABOUT SAVINGS

The U.S. rate isn't as low as it looks

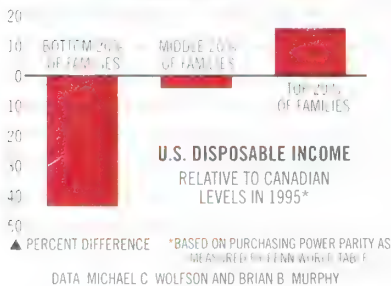
Should Americans worry about their apparently meager savings sums they're squirreling away? Although experts moan the falling personal savings rate and predict dire effects on future consumption and investment, economist Douglas Lee of HSBC Washington Analysis argues that the savings rate conveys an overly pessimistic picture.

To understand the problem, says Lee, you have to remember that savings are constructed by first estimating personal income, then subtracting taxes to get disposable income, and then subtracting consumption. The savings rate is what is left over, expressed as a percent of disposable income.

Because many Americans have invested in stocks in recent years, they've been racking up capital gains—and taxes on those gains. But even though the rising value of their stocks is counted as income, these taxes are subtracted from current income, reducing the savings rate. And if Americans decide to boost consumption by spending some of their newfound wealth, the rate falls lower still.

Clearly, says Lee, a falling savings rate caused by capital-gains taxes paid by people getting richer is not an omen of weakening consumption. Indeed, he estimates that the rate would be twice its current level without the tax distortion. "It's time," he says, "to get re-stop worrying about low savings."

HOW AMERICAN FAMILIES FARE VS. CANADIANS



more egalitarian. One might also assume that attempts to resist that trend would harm Canadian living standards.

Judging by a study in the *Monthly Labor Review* by Michael C. Wolfson and Brian B. Murphy of Statistics Canada, however, such assumptions appear decidedly premature—at least till now. The researchers confirm that gross domestic product per capita grew a bit faster in the U.S. than in Canada from 1970 to 1995. But they find that many Canadian families in 1995 still enjoyed higher disposable incomes in terms of absolute purchasing power than their U.S. counterparts (chart). And trends toward inequality in Canada have either been muted or failed to develop.

While U.S. workers earn more on average than Canadians, for example, the trends in earnings inequality—as measured by the gap between the top and bottom 20% of earners—have diverged. From 1974 to 1985, wage inequality increased in both nations. From 1985 to 1995, however, it narrowed slightly in Canada but continued to widen in the U.S., where the top 10% of workers reaped hefty pay gains.

Interestingly, even as this occurred,

FROM WELFARE TO WORK

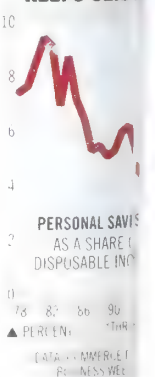
Poor transit can be a major hurdle

If you're a parent of young children and are receiving public-income assistance, you had better start looking for work—and find it. That's the mandate of welfare reform in the 1990s, which sets a time limit of two years for most beneficiaries to stay on the dole.

The problem, however, as a Transportation Dept. study of welfare reform and access to jobs in Boston suggests, is that fast-growing industries with entry-level jobs are often located far from the central-city areas where welfare recipients are concentrated. And transportation to such jobs may be slow, spotty, unavailable, or prohibitively expensive.

To underscore the challenges faced by welfare recipients, the study estimated travel times from a Boston district with lots of recipients to areas where potential employers are located. It reports that only 14% of the employers could be reached by public transit within an hour,

THE SAVINGS RATE KEEPS SLIDING



THEIR AWARD-WINNING ENVIRONMENTAL EFFORTS YIELD PROFITS THAT ARE OFF THE CHARTS.

EPA Congratulates the ENERGY STAR® Buildings and Green Lights® Partners and Allies of the Year.

American Electric Power Company

City of Scottsdale, Arizona

Compaq Computer Corporation

Davenport Community School District

Johnson & Johnson

Louisville and Jefferson County Metropolitan Sewer District

McDonald's

Mobil Corporation

St. Joseph Hospital

The Trane Company, Worldwide Applied Systems Group

Walt Disney World Co.



These leaders demonstrate that energy efficiency is smart business, boosting their bottom lines while peaking environmental performance. By installing energy-efficient technologies in their buildings, these organizations annually save more than \$39 million and prevent the release of more than 336 million pounds of carbon dioxide. Their award-winning efforts reduce operating costs and build more competitive organizations, as well as help prevent global climate change, acid rain, and smog. It seems some companies share their profits with the world.

To learn more, call the toll-free ENERGY STAR Hotline at 1-888-STAR-YES (1-888-782-7937).

HUNDREDS OF PEOPLE THIS YEAR WILL MAKE A STATEMENT
ABOUT THE FUTURE, THE ENVIRONMENT
AND HOW THEY WANT TO GO GET GROCERIES.



What motivates you?

Are you motivated by hope? By fear? By a critical and compelling need? Can you see a day of cleaner air and wide-open possibilities and not let cynicism and inertia cloud that vision?

What inspires you? Is it the work of science? Is it driving a vehicle that has no engine, no pistons, no gas tank and emits no pollution? Is it the sci-fi novels of H.G. Wells? Or is it Walden Pond?

What is your idea of fun?

Is it unplugging the car and driving like the wind, only much quieter than the wind? Is it being the first on your block? Is it answering all the questions and fielding all the stares?

What kind of world do you want to live in? A world in which thousands of children each year are no longer harmed by the air they breathe?

Do you believe one person can still make a difference in this world? Do you believe one person can start a revolution?

Do you believe that person can be you?

What is it about this vehicle that captures you? Is it the appearance? Is it the performance? Is it the fact that it never needs a tune-up and the only scheduled maintenance required is rotating the tires every 5,000 miles?

Or is it the fact that a vehicle like this even exists?

What are your doubts and concerns about this new thing? Are they big enough to stand in the way of history? Are they big enough to stand in the way of you making history?

What are those voices inside telling you? Are they voices of conscience? Are they the voices of a pioneer? A maverick? Are they the voices of your children and their children?

What motivates you?

THE ELECTRIC CAR IS HERE. 1.800.25ELECTRIC or www.gmev.com





Don't Put Your Baby's Health On The Line.

It's a thin line between having a healthy baby and a baby that's sick. Don't take the risk. If you're pregnant— or even think you are — getting prenatal care early is the most important step you can take. Call 1-800-311-2229. We'll put you in touch with the many services available to you. The call is free and it's completely confidential.

Get Prenatal Care Early • Call 1-800-311-2229 • Confidential

Take Care of Yourself So You Can Take Care of Your Baby.

JAMES C. COOPER & KATHLEEN MADIGAN

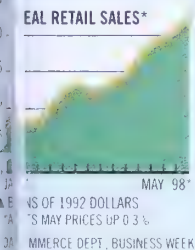
THIS ECONOMY COULD SHRUG OFF THE ASIA EFFECT—AGAIN

Strong domestic demand continues to offset weakness overseas

U.S. ECONOMY

Once again, an ill wind from Asia is buffeting the U.S. economy. This time it's coming from Japan. The yen's recent weakening in recent weeks finally prompted international efforts to try and prop it up, although the attempt may go for naught without fundamental reforms in Japan. The question for the U.S. is: Will Round 2 of the Asian crisis have any impact on overall growth and inflation than last time, which the economy barely noticed?

SPRING BREAK FOR SHOPPERS



As with the first squall in October, the biggest potential loser is sure to be the stock market. As the yen tumbled to an eight-year low of nearly 147 per dollar, worries over profits sent the Dow Jones industrial average down some 400 points from June 5 to June 15. That was before the June 17 currency intervention, when U.S. and Japanese central banks agreed to intervene. That action gave stocks a boost, but it also hurt the bond market hard, reversing about half of the bond-quality rally in early June that saw 30-year Treasury yields fall from 5.82% to a record low 5.65%. Financial market gyrations aside, the lesson from the first quarter was that the economic outlook will turn on domestic demand. On that front, the economy's second quarter remains surprisingly strong. Certainly, growth will not match the first quarter's 4.8%, which was achieved despite a 3-percentage-point drop in a widening trade deficit. Still, the latest data suggest that the slowdown this quarter may not be as sharp as many forecasters had thought.

LOOK AT THE NUMBERS: First, industrial production slowed since the third quarter of last year, but output was stronger than expected, and production is growing faster in the second quarter than it did in the first. Second, May retail sales also rose more than expected, and consumer spending this quarter is set to show another big gain (chart). Third, while May housing starts dipped, they remain at a high level, and builders' optimism is at its most upbeat in years. Finally, the domestic economy is so strong that, despite the deflationary drafts from Asia, core inflation, excluding energy and food, so far this

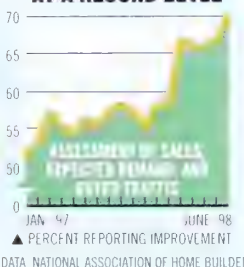
year has picked up to an annual rate of 2.7%, up from 2.2% during all of 1997. The speedup is broad, and it is led by services, as well as some goods, which are more immune to the Asian flu.

Consumers are powering growth in the second quarter. Retail sales in May increased 0.9% from April, when they rose 0.7% from March. May buying was boosted by a surge in demand for cars and light trucks, fueled by dealer incentives. Sales in April and May averaged a 15.8 million annual rate, up from 15.1 million in the first quarter. Also, May purchases of furniture and appliances racked up a big gain, reflecting the ongoing strength in housing, and department store sales scored solid gains as well.

The retail data imply that real consumer spending this quarter is on a path to rise at an annual rate in the neighborhood of 4.5%. That would be a strong performance in its own right, but it would be stunning coming on the heels of the first quarter's 6.1% surge, which was the biggest gain in six years. Taken together, first-half consumer outlays are on their way toward the strongest two-quarter growth in 12 years.

Housing also remains strong. May housing starts dipped 0.7%, to an annual rate of 1.53 million, but demand fundamentals are supportive, and inventories of unsold homes are near-record lows. Also, the index of housing-market conditions, based on a survey of builders, hit a record-high 71 in June, as builders reported that current sales are on the rise (chart).

BUILDERS' OPTIMISM IS AT A RECORD LEVEL



ROBUST DOMESTIC DEMAND continues to be a big offset to the Asia-related weakness in foreign demand. Look at it this way: Total U.S. exports are 13% of gross domestic product, but consumer spending and housing are 72%. That same math appears to be buoying second-quarter growth, similar to the way it lifted first-quarter growth.

Indeed, despite weaker exports, industrial production rose a larger-than-expected 0.5% in May. Output in manufacturing, while slowing in recent months, still grew 0.2%, the same as in April. Not surprisingly, output of consumer goods increased substantially for the third month in a row, led by home-related

goods such as appliances, furniture, and electronics.

Given that domestic demand remains strong and that industrial production continued to rise in May, imports appear to have accounted for a big chunk of the large first-quarter buildup in inventories. That would mean that domestic producers would not have to absorb the full burden of cutting stock levels down to size, thus limiting the hit to U.S. output. The April ratio of inventories to sales remained at a level that does not suggest that stockpiles are excessive.

THE ASIAN CRISIS is creating a dichotomy in the U.S. economy: Output and prices in sectors that face stiff global competition tend to be far weaker than they are in sectors such as services and goods that are less sensitive to foreign influences. That is especially true for inflation. The consumer price index rose 0.3% in May, and, excluding food and energy, core prices rose 0.2%.

However, core inflation has picked up a bit. The collapse of energy prices is helping to mask the acceleration in some components of the overall CPI, specifically many services and some goods that are more shielded from foreign competition (table). Core service prices are growing at an annual rate of 3.4% so far in 1998, up from 3% for all of 1997. The pickup has been broad, from medical care to personal care to recreation.

Even inflation for goods prices is ticking higher for some items, such as pharmaceuticals and textbooks,

that do not face much foreign competition. Somewhat surprisingly, core goods inflation so far this year has picked up to 1.2%, from 0.4% for all of 1997.

Nevertheless, the deflationary winds from Asia continue to blow. Import prices for nonpetroleum goods kept on declining in May and, during the past year, they have fallen 3.3%. The overall rate of decline tapered off, but the drop-off in prices of Asian goods down 8.3% from a year ago, continues to accelerate.

But as already seen, not all of the Asian-crisis impacts are negative. Prices of imported commodities account for most of the Asia-related drop in import prices, but that lowers production costs for many U.S. producers. In particular, crude oil prices hit a 12-year low on June 15 of less than \$12 per barrel.

To be sure, Japan is the key to any further down-draft on the U.S. from Asia, particularly if a yen forces a devaluation of the Chinese currency, which would slam the region especially hard. Clearly, risks have increased, but so far, domestic demand continues to keep the U.S. economy chugging along.

WHERE INFLATION HAS EDGED UPWARD

PERCENT CHANGE, AT ANNUAL RATE
1997 FIRST 5 MONTHS OF 1998

FOOD & BEVERAGES	1.6	2.0
HOUSING	2.4	2.4
APPAREL	1.0	-0.5
TRANSPORTATION	-1.4	-3.0
MEDICAL CARE	2.8	3.6
RECREATION	1.5	2.4
EDUCATION & COMMUNICATIONS	3.0	1.9
OTHER GOODS & SERVICES	5.2	6.6
ALL ITEMS	1.7	1.5
CORE	2.2	2.7

DATA: LABOR DEPT., BUSINESS WEEK

AUSTRALIA

RATES: THE QUANDARY DOWN UNDER

The Reserve Bank of Australia is on the horns of a dilemma: The Aussie dollar sank to a 12-year low of 57.99 U.S. cents on June 16, as the Asia crisis began to throttle the economy. The RBA may need to hike interest rates to support the dollar and thwart a round of import-led inflation, but higher rates could turn an economic slowdown into a recession. What will the central bank do?

The odds are nothing, for now—especially as the growth outlook weakens. Economists are cutting their growth forecasts to 2% for the year ending June, 1999, calling the government's 3% projection too optimistic. First-quarter real GDP grew strongly,

up 4.9% from a year ago, but a huge unintended buildup of inventories accounted for all of the quarter's strength. Exports fell sharply, and private domestic demand stagnated. Asia accounts for

60% of Australian exports, and one-third of the total goes to Japan and Korea—both in recession.

The domestic economy is also set to weaken. Given that capital spending plans and retail sales are softening, the coming inventory correction

is expected to last through year-end. Employment is down in four of the past five months, and the jobless rate, at 8.1% in May, is likely to rise. May business confidence was the lowest since the

early-1990s recession, and June consumer confidence was the lowest in three years.

But the RBA is also concerned that the currency's 20% plunge against the U.S. dollar since late 1997 will lift inflation above its 2%-to-3% target range. The Aussie dollar strengthened to above 59 U.S. cents on June 17, but its problems go beyond the Asian crisis to the country's heavy dependence on foreign capital. The RBA projects the 1998 current account deficit will reach a huge 6% of GDP, the highest since the mid-1980s.

Still, the dollar is holding its value relative to Asian currencies and import inflation also will be restrained by weaker world commodity prices and softer domestic demand. Besides, the weaker currency will be stimulative for Australia's slowing economy.

THE AUSSIE HITS A 12-YEAR LOW





Between millions of packages and their final destination lies but one road.
Introducing Guaranteed Ground. Only from UPS.

UPS guarantees every ground package you send to any business address from coast to coast. Now you can be certain shipment will arrive by the day it's promised—the precise day—or your money back. And when you consider millions of packages we deliver every business day, you begin to understand just how much ground this guarantee really covers. Go to www.ups.com or call 1-800-PICK-UPS. **MOVING** at the **SPEED** of BUSINESS.



Is this the end of the yen's free fall? For months, U.S. Treasury Secretary Robert E. Rubin stood by as the Japanese currency sank to levels not seen since 1990. Traders figured he would never make a move and continued selling. Finance ministers around the world feared that the speculators were right—and braced for a new round of competitive devaluations and a deepening Asian recession. So when Rubin organized a massive intervention to save the yen on June 17, the markets took the initiative seriously. The yen quickly jumped 6% off its low of 146 to the dollar, set on June 15.

But will it stick? Not unless Rubin can somehow force Japan to fix its financial problems—a mess that has defied all solution for a decade. In return for a U.S. rescue of the yen, Rubin got reassurances from Japan's Ministry of Finance that Tokyo would let more banks fail, force full-disclosure of nonperforming loans, and bail out only the banks that seriously restructure. If they wanted to, the Japanese could move quickly to shut the weakest banks. Yet without true reform, the most that can be expected now, say experts, is that the yen will decline at a slower pace. And the specter of a yen collapse will continue to haunt the markets.

CHINESE ALARM. So what made Rubin finally act?

With U.S. business leaders growing increasingly uneasy about the soaring dollar (p. 32) and Chinese leaders pressing for relief—to prevent a devaluation of the renminbi—Treasury officials began pondering an intervention over the weekend of June 13-14. After intense consultations with their Japanese coun-

terparts over the next 72 hours, Rubin & Co. settled on a \$2 billion government purchase of yen.

The biggest impetus was the mounting anxiety in Asia as the yen plummeted in the first two weeks of June. Especially alarmed were Chinese officials who feared their grand economic

THE GLOBAL ECONOMY

NOW FOR THE HARD PART

If Japan doesn't come through with real reform, the yen could still go through the floor

plans would be undone by a tumbling yen. The Chinese started lobbying the U.S. privately for an intervention in advance of Clinton's arrival in Beijing on June 25. "The Chinese have been complaining that we haven't been doing enough to stop the depreciation of the yen," which makes Chinese exports less

competitive, says a top Administration official. Meanwhile, public state-
showed Beijing preparing the w
their own devaluation. Chinese ser
indicate that Beijing finance offici
ured a yen weaker than 150 spell
aster and would force a defensive

Echoing the Chinese were finare

THE RISE AND FALL OF THE YEN

DATA: BUSINESS WEEK
BLOOMBERG FINANCIAL
MARKETS

DECEMBER, 1989

143

Japan closes its most prosperous decade with the yen trading at 143 to the dollar. The Nikkei hits its all-time high.

JANUARY, 1992

125

As Japan's exports boom and recession grips the U.S., trade tensions flare. President Bush travels to Japan. The yen strengthens to 125.

JUNE, 1993

107

President Clinton talks tough on trade and applies upward pressure on the yen, which goes to 107.

MARCH, 1998

102

America's recession speeds, and U.S. makers reboul-
yen
ens
Japan's growth slows.

A falling yen weakens other Asian currencies, making Japanese goods unaffordable in its biggest markets

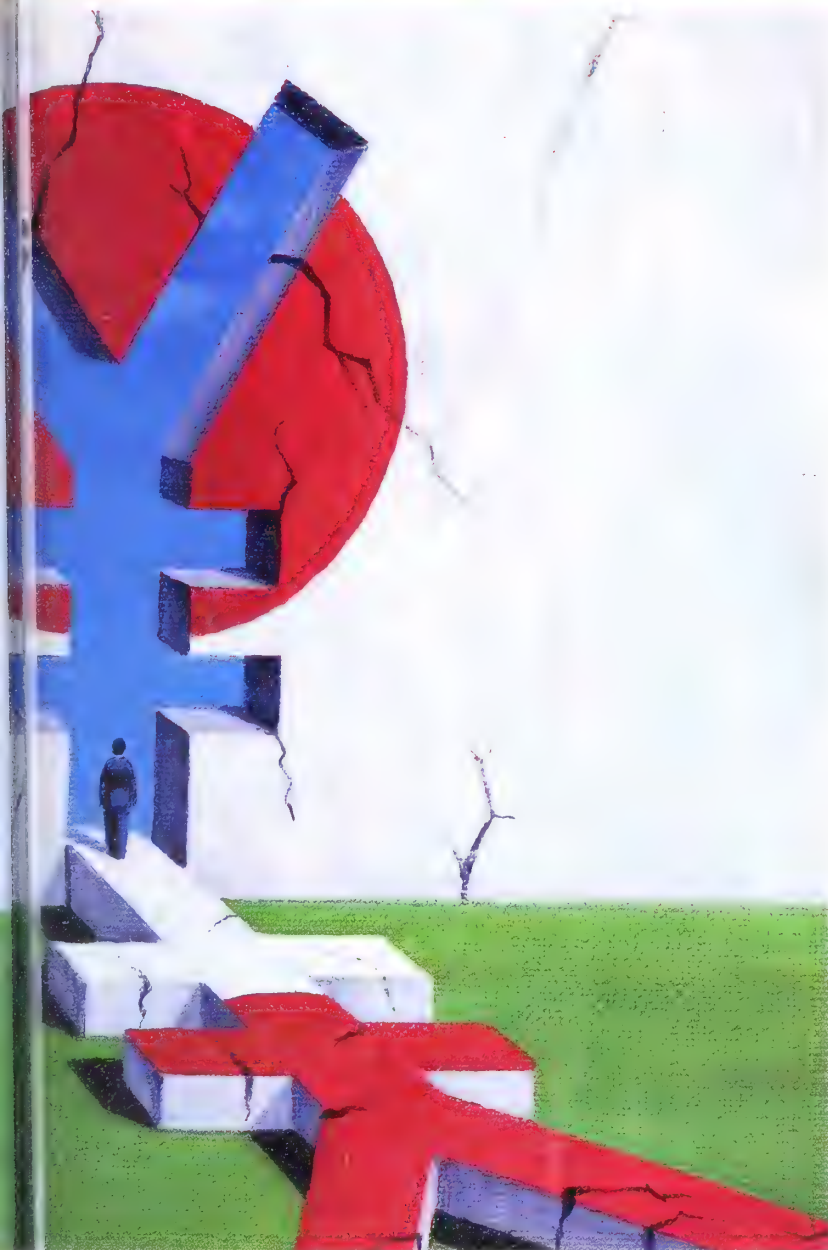
the first time in Bill Clinton's Presidency, the U.S. Treasury engineered a joint intervention with Tokyo to bring down the dollar.

The next step is to push Japan for the reforms that could give the yen a solid foundation. Deputy Treasury Secretary Lawrence H. Summers and other global financial leaders were headed to Japan on June 18 to press for accelerated action. Says one Administration official: "We don't have the luxury of waiting. The Japanese need to take steps now to reinstall confidence." Clinton reinforced the point in a late-night phone call on June 16 to Japanese Prime Minister Ryutaro Hashimoto.

DIM PROSPECTS. These jawboning missions have produced limited results in the past. The Americans demand painful moves, such as shutting all of Japan's insolvent banks and clearing the market of bad loans. The Japanese always pledge action—then deliver packages of public-works spending, limited tax relief, and vague promises to do more.

Unless the pattern is broken this time, the world has to prepare for renewed weakness in the yen. Some analysts are still talking about a rate of 155 to the dollar. The drop to that level may be gradual, since traders may be more cautious in shorting the yen after the June 17 intervention. But Japan's dimming economic prospects still point to a weaker yen.

The Japanese themselves will keep



als
ja
re
en
a,
e
re
on
e
Australia, Hong Kong, and
who watched in horror as their
es came under pressure too.
e Deutschmark was feeling the
ominous development since Eu-
ds stability to launch its single
next year.
e home front, chief executives

from Motown to Silicon Valley have also
been leaning on Rubin to curb the as-
cent of the dollar, which is curbing ex-
ports and eroding profits. "We would
like to see a more activist role," said
Caterpillar Inc. CEO Donald V. Fites,
head of the Business Roundtable, one
day before the U.S. intervention. So for

995
0, and
ial sys-
aking
xport
s profits.
J.S. talks
ollar up.

DECEMBER, 1996
The Japanese economy
starts to mend, but the
yen slides to 115.
115 Exports surge
again.

NOVEMBER, 1997
Five months into the
Asian crisis, Japanese
brokerages
and banks
start to fail.
128 The yen slumps to 128.

JUNE, 1998
146 The numbers
confirm
Japan's
economy is contracting
severely. The yen slides
from 138 in May to 146.

JUNE, 1998
On June 17, the U.S.
Federal
Reserve starts
buying yen to
prevent a financial
meltdown. The yen
strengthens to 137.

putting downward pressure on their currency—mainly by selling it to buy investments abroad that will yield higher returns. In April, Japanese investors pumped a record \$20 billion into high-yielding foreign investments, mostly bonds, according to the Ministry of Finance.

If the capital keeps flowing out, the Japanese stock market will continue to fall. A weaker Nikkei spells bad news for the banks, which count unrealized portfolio gains as capital. If their capital bases erode further, the banks will edge closer to insolvency and will pull back from lending even more than they have. All this means that Japan's credit crunch is likely to intensify, forcing more manufacturers to close, and sending the Nikkei into even lower realms. Foreign investors aren't likely to jump into a market where returns will be eroded by a declining currency.

PLUNGING CURRENCIES. If the weaker yen poses such perils to Japan itself, it's hard to figure why the Japanese have not acted to arrest the currency's slide. The explanation? It seems that officials at the Ministry of Finance had wanted a weaker yen to keep exports strong and provide some life to the economy as they tackled the bank mess. But they didn't anticipate the yen's dramatic fall, and they probably didn't want it.

Indeed, they're aware that a yen that falls too far is a mixed blessing. Toyota figures that every one-yen decline adds about \$110 million to operating profits from exports to the West. But there's a cost: The falling yen sends other Asian currencies plunging and makes it impossible for consumers and businesses in those markets, among Japan's biggest, to afford Japanese goods. Besides, Japanese manufacturers have farmed out a lot of production overseas. "So even if we have a good exchange rate, it's not easy to increase exports," says Mitsubishi Motors. President Katsuhiko Kawasoe. Even now, Mitsubishi overseas plants are running way below capacity, and a shift back to the Japanese plants would be disastrous for them.

So responsibility for the ultimate solution to the yen/dollar crisis goes back to the Japanese and their leaders. The world is waiting for a sign that Japan is ready to tackle its problems, even at the cost of great pain to its conservative society. Instead, the world has gotten a temporary pause in the yen's decline, thanks to the world's central bankers. It's not enough.

By Brian Bremner in Tokyo and Dean Foust in Washington, with Stan Crook in Washington



CURRENCIES

TOO MUCH OF A GOOD THING

Companies and markets see the downside of a strong dollar

When the Asian financial crisis first sent the U.S. dollar climbing last fall, Wall Street and Washington braced for trouble. The fear: A resurgent greenback would slam U.S. exports, erode corporate profits, and crimp economic growth. But instead of being a curse, the strong dollar

has been a surprise blessing—helping control inflation in check, attracting billions of dollars in foreign investment, driving down interest rates, and giving U.S. companies extra buying power overseas. But good news may be coming to an end.

Call it the delayed-dollar effect: When the greenback surged 10% again

American carmakers fear Japanese rivals will soon flood the U.S. to exploit their growing cost advantage

ese yen just since May, to an year high, American exports and suddenly look vulnerable to big is year. Indeed, the dollar has o sharply against the yen that it nt other global currencies slip- rom Canada to Australia. That the Clinton Administration on 7 to engineer its first joint inter- with Tokyo to prop up the yen. ough the mass government pur- of yen may have braked the dollar short term—and was enough to 164-point Dow rally—U.S. exec- fear the effects will not last and lar will resume its climb against encies. Even at current levels, gative effects of a strong dollar ginning to outweigh the benefits. r starters, the U.S. trade deficit cted to balloon to a record \$250 this year, more than double the ally. And the same day the yen was disclosed, the Federal Re- out its monthly “beige book” of regional economic activity, ighlighted a drop in West Coast and computer-component exports , reduced demand for manufac- goods from New England, and ed competition from low-priced extiles in the Southeast.

Ady, multinational companies from 3M to Motorola to West- gital are warning that second- profits are being hammered by wo punch from a strong dollar ak Asian demand. Charles L. search director at First Call predicts that second-quarter prof- rise by less than half the 12.9% rate analysts had forecast at inning of 1998, with the robust factor. “The biggest impact on s will come in the third quar- says.

PROP. Why didn't the surging ick threaten the U.S. economy At first, the collapse of Asia's ies unleashed a flood of foreign ent seeking the safety of U.S. s. The result has been a drop in m interest rates—yields on the Treasury fell below 5.6% for the e on June 15. Louis B. Crandall, onomist at R.H. Wrightson & es, estimates that Asian invest- have accounted for most, if not drop in rates this year.

r borrowing costs have fueled a n housing and autos and trig- rush of consumer and corporate

refinancings. Moody's Investors Service says U.S. companies issued \$146.5 billion in debt in the first five months of 1998, up from \$88.2 billion in the same period last year. “Corporate bond issuance is going through the roof,” says Moody's Managing Director John Lonski.

And U.S. companies are seeing the lowest prices for commodities such as oil in years—which helps their bottom lines. Consider Chrysler Corp., normally quick to squawk about a falling yen. Lower prices for commodities such as rubber and steel “have allowed us to maintain our margins,” says Chrysler chief economist Van Bussman. What's

man predicts that “the negative effects of Asia will hit us later this year.” Soon, he fears, Japanese auto makers will begin to use their growing cost advantage to cut price tags. Other U.S. auto makers have the same fear. “We have a beleaguered Japanese industry and a very weak economy,” says Ford Motor Co. CEO Alexander J. Trotman. “We all know what that means: They load up the boats and ship.”

“WORST-CASE SCENARIO.” While Detroit is fretting about stiffer competition from imports, other U.S. manufacturers face tough times holding on to their share of export markets. The Manufacturers Alliance predicts that if the Asian situation worsens, it could cut deeply into U.S. output. Even with a dollar at 128 yen, the alliance predicts that shipments of engines and turbines would fall 6% in 1999. Electronic parts and communication equipment would be 7% lower, and aerospace would drop 4%. “In mid-April, people were getting fairly sanguine about the situation,” says Alliance economist Jeffrey F. Werling. “Now, we are moving toward the worst-case scenario. The real danger of the weaker yen is that it will bring down other currencies.”

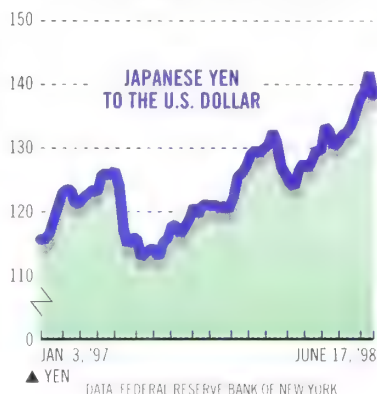
Charles Machine Works Inc. in Perry, Okla., which makes drilling equipment for utilities, also had high hopes for its exports to Asia earlier this year and planned to increase its distribution network in the region. But with the company now projecting an 80% drop in Asian sales, “we've definitely got the brakes on,” says Marketing Director Kurt C. Andrews. “It's kind of made Europe look good to us again.”

Europe's economies are building a head of steam, and although the dollar has strengthened against European currencies, the rise has been relatively small. In the past year, the dollar is up 7% against the Deutschmark, and some economists think the greenback will give back its gains over the next 18 months. “We do not expect this dollar strength to be sustained,” says Thomas Mayer of Goldman Sachs & Co. in Frankfurt.

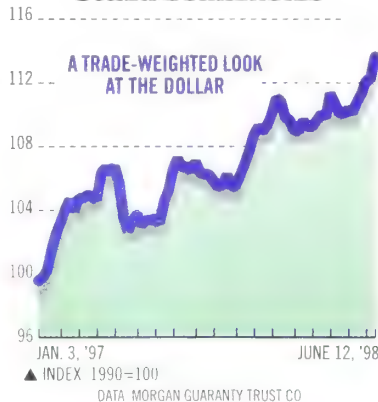
Still, the outlook in Europe isn't so bright as to mask the growing gloom the almighty dollar is causing elsewhere in the world. American business is about to discover the consequences of too much of a good thing.

By Dean Foust in Washington, with Keith Naughton in Detroit, Wendy Zellner in Dallas, Pete Engardio in New York, and Thane Peterson in Frankfurt

THE DOLLAR IS SOARING OVER A DROPPING YEN...



...AND GAINING ON OTHER CURRENCIES



more, Chrysler's savings from purchases of engines and other components made in Japan have more than offset the lost vehicle sales there. “The drop in the yen has actually helped us,” Bussman says. “Asia has been close to a wash so far.”

But the good news won't last. Buss-

THE MARKETS

ASIA IS HURTING STOCKS. ASIA IS HELPING STOCKS

Depending on which sectors you choose, you're both right

As Asia's economic crisis deepens, the U.S. stock market is skidding around like a hockey puck. With Asian news dominating the market, the Dow Jones industrial average took a heart-stopping 207-point dive on June 15, followed by a 37-point climb the next day, and a 164-point tear, to 8829.5, on the 17th—as news of a yen rescue made Asia worries fade.

Investors can't be blamed if they find this more than a little confusing. Will the Asia crisis hurt U.S. profits as exports drop? Or will cheap Asian imports and plummeting commodities keep a lid on inflation even as wages rise and consumers go on a spending spree? What stocks can prosper now?

There's no question that the earnings hit to big multinationals will be significant. 3M, for example, announced on June 16 that it expects profits to miss estimates because of both slowing Asian demand and the strong dollar, which lessens the value of overseas earnings. News of a yen rescue mission on June 17 was good enough to spark a major rally, but it won't be a long-term solution, most market watchers say.

WILDER STILL. Analysts such as John L. Manley Jr., an equity strategist at Salomon Smith Barney, are now expecting only modest earnings growth this quarter—a rerun of the 1.5% hike in the first quarter, as tallied by I/B/E/S Inc. Joseph V. Battipaglia, Gruntal & Co.'s strategist, thinks "the bull market can withstand a profit recession, as long as there's an end to it at some point, in the third or fourth quarter of this year, or in 1998." Few analysts



WHERE THE EARNINGS ARE

WINNERS

FINANCIAL Favorable interest rates and merger mania strengthen securities-firm stocks

RETAILERS The lower cost of goods made in Asia boosts the bottom line—especially for apparel

SERVICE Health care, luxury hotel, and airline companies can hike prices thanks to strong U.S. consumer spending

LOSERS

CAPITAL GOODS Lack of pricing power threatens to shrink profit margins

BASIC MATERIALS Price weakness in commodities slams everything from oil to soybeans

SEMICONDUCTORS Plunging Far East demand hurts U.S. exports; weak Asian currencies give Asian rivals a pricing edge

think the flow of Asian flight money will play more than a marginal role in supporting the market.

The market's gyrations will probably grow still wilder as earnings season gets under way. We're already in the volatile preannouncement period, when companies warn analysts about their upcoming earnings reports. "Preannouncements are waving something of a caution flag," says Charles L. Hill, director of research for First Call Corp. The normal pattern is for 57% of all preannouncements to be negative. With the peak weeks of preannouncements yet to come, the tally already is 65% negative.

The soaring dollar is the culprit in

many of the grim warnings, as exporters find it harder to sell their increasingly pricey wares. Plus, they see the strong dollar lowering repatriated profits from overseas sales. Had the dollar-yen rate stayed relatively stable, "it likely be 500 points higher" in the stock market, says Battipaglia.

Among the victims: computer makers and semiconductor companies.

National Semiconductor Corp., for example, is down 47% since January and reached a 52-week low on June 17. Oil companies and other commodities producers are also getting buffeted as the prices of raw materials plunge.

SAFE HAVEN? How will the market deal with weaker earnings? "Company managers will be on an ever shorter leash," says Greg Smith, Prudential Securities Inc.'s chief strategist. Companies that have low exposure to Asia's maladies are big winners. Take retailers, particularly ones that sell apparel, which is made in the Far East. According to Bruce Schindewolf, an economist at Salomon Smith Barney, retailers are getting to the place where they may see a profit, since items shipped now were contracted for when currencies started to appreciate last year.

U.S.-centric companies should also continue to benefit from strong consumer spending. Battipaglia likes Wal-Mart Stores Inc. and Brothers Home Builders, for instance. Standard & Poor's Corp. recommends overweighting portfolios with cyclical and health-care issues. Sam Stovall, S&P's equity strategist, says low interest rates and a merger boom are helping many financial companies. Morgan Stanley Dean Witter & Co. seen its stock soar 33.5% this year.

Staying close to home may be the safest stock-picking strategy today, even within the U.S., investors are told to tread ever more carefully.

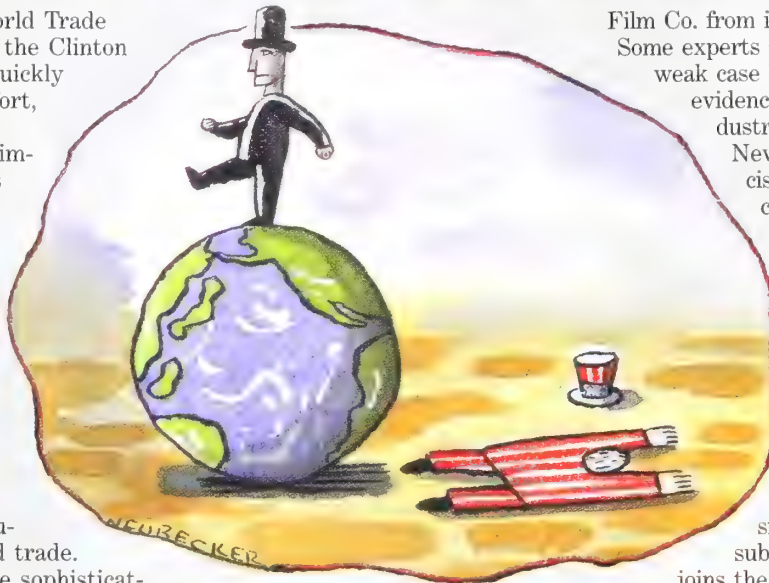
By Suzanne Woolley in New

By Paul Magnusson

WHY THE WTO NEEDS AN OVERHAUL

It's time to fix the World Trade Organization. Unless the Clinton Administration can quickly launch a major reform effort, the 500 Geneva-based bureaucrats who implement the WTO's rules might just unravel 50 years of progress in the trading world's markets. Three major decisions recently suffered by the U.S. show that the WTO is crumbling—perpetuating subtle barriers it intended to eliminate, while failing to keep up with the revolutionary growth in world trade. Without a broader, more sophisticated approach to the global economy, the greater expertise by its members, and reform of its processes, the three-year-old WTO will erode its dwindling credibility. This isn't a case of sour grapes. Unless the WTO stands for reducing trade barriers, rather than perpetuating them, it has no *raison d'être*. And up to the U.S., which forced creation of the 132-member WTO, to ensure that the organization remains true to its mission.

THE CHAMBER? The biggest problem in the WTO hearing process—more the century Star Chamber than a court that was created by democratic governments in the late 20th century. Hearings are held in secret, outside members are excluded, and the U.S. briefs often aren't considered. With a lack of transparency and limited input, the WTO rulings defy reason. The latest blunder: a little-remembered appeal panel decision in June 1995 to let Britain, Ireland, and the European Union classify imports of U.S. local area network (LAN) computer equipment as telecom gear—lowering the duty from 3.9% to 5%. The decision's logic is untraceable, but the precedent is clear: Countries can set up protections by linguistic legerdemain. That tortured decision followed a May 15 ruling brand-



ing U.S. attempts to protect endangered sea turtles a violation of world trading rules. Federal law prohibits imports of shrimp from countries that allow trawling in seas frequented by sea turtles, unless nets are equipped with trap doors to let the turtles escape before they drown; domestic shrimpers are treated no differently. In a bizarre twist, the WTO brushed aside an international treaty protecting many turtles as endangered.

The most significant U.S. dollar loss to date was the massive case brought on behalf of Eastman Kodak Co. against the government of Japan. The U.S. charged that Tokyo protected domestic film maker Fuji Photo

Film Co. from import competition. Some experts say Washington had a weak case because much of its evidence of government-industry collusion was old.

Nevertheless, the WTO decision implied that the cozy Japanese distribution system is outside the scope of global trade laws. Unless the WTO panels can broaden their approach beyond narrow legalisms, other nations will be encouraged to follow Japan's lead. What if China, with its massive state-owned or subsidized industries, joins the WTO and comes before it with a dispute?

TIME FOR REFORM. The Clinton Administration argues that it has won more cases than it has lost before the hearing panels. Of 41 cases the U.S. has brought, it has won 7 and lost 2, with 9 more that were settled in its favor. Of 19 brought against the U.S., 4 were lost by the U.S., and 7 settled in favor of the U.S. side. But it's the smaller, more winnable cases that were brought and decided first. And now the latest trend shows that the tougher and more significant cases are setting the worst precedents. (All of the remaining cases are pending.)

President Clinton now has the opportunity to push for reform. The pact establishing the WTO in 1995 called for a review at the three-year mark. And Clinton promised Congress in 1994 to appoint a group of U.S. appellate judges to review the trade organization's competence should the U.S. lose three cases in a five-year period. He can do that now.

Trade has become too important to be controlled by a faceless bureaucracy. The Clinton Administration should mount more pressure for reform. The WTO is too important to fail.

Paul Magnusson covers international trade and economics from Washington.

THREE STRIKES FOR THE U.S.

JAN. 30 A WTO panel rules that Tokyo's attempts to protect Fuji Photo Film from competition by Kodak don't constitute an illegal trade barrier. Implication: Japan's subtle trade barriers don't matter.

MAY 15 A three-member panel finds that U.S. rules requiring shrimpers to use nets with trap doors to help sea turtles avoid drowning constitute an illegal barrier to trade.

JUNE 5 An appeals panel allows Britain, Ireland, and the European Union to reclassify computer equipment as telecommunications gear in order to protect Europe's industry with higher tariffs.

DATA: BUSINESS WEEK



STRIKE-TORN: A closed GM plant in New Jersey

DETROIT

IF FORD CAN DO IT, WHY CAN'T GM?

How Ford has achieved labor peace while boosting efficiency

It's shaping up to be another classic battle between General Motors Corp. and the United Auto Workers. Ten days after UAW pickets went up at a Flint (Mich.) stamping plant, production is grinding to a halt at GM factories across North America. The shutdown, which is already costing the auto giant \$50 million a day in lost profits, could become far costlier: If it lasts into July, dealers will run short of inventory, and GM could lose even more of its already dwindling market share.

As in most of the 11 previous strikes since 1996—which have cost the auto giant a total of \$1.5 billion—GM is ready to hang tough. The company says it has no choice: To get the productivity improvements it so desperately needs, management must eliminate jobs, change work rules, and have the flexibility to send work to outside suppliers—measures that the union vehemently opposes. Says Donald E. Hackworth, vice-president of GM's North American operations car group, "we're trying to close a competitive gap."

But so far, despite the rhetoric, forcing strikes has only produced incremental gains. Even the investors who have gone along with previous strikes are wondering aloud if there isn't a better way to achieve GM's goals. They're looking at rivals—Ford Motor Co. in particular—and

seeing that it's possible to get efficiency gains by working closely with the UAW rather than battling on the picket lines.

Admittedly, Ford accomplished much of its downsizing in the mid-1980s. Yet even in those tough times, it began reaching out to the unions to find ways to make the company competitive with the rising tide of Japanese carmakers. Now, UAW Vice-President Ernest Lofton and Ford Chairman Alexander J. Trotman meet for breakfast every other month. The UAW's input is sought at frequent briefings on the most sensitive Ford strategies. "They take us through what they are planning for the next five or six years," says Lofton.

The result: no nasty surprises. So, when Ford closed its venerable Thunderbird factory in Ohio last year and laid off 2,500 workers, there was no public outcry by the union. Ford had let the UAW know about the closing six

months in advance, and the workers worked out a deal to get a \$45,000 bonus if transferred to a Kentucky pickup truck plant. "We discuss problems in advance," says Lofton. "When they commit something, you can go to bank on it."

The cozy relationship has more than labor peace: Power & Associates Inc. named three Ford factories having the highest quality in North America. Moreover, it is expected to report record profits of more than \$2.2 billion in the second quarter, putting it on the road to outearning

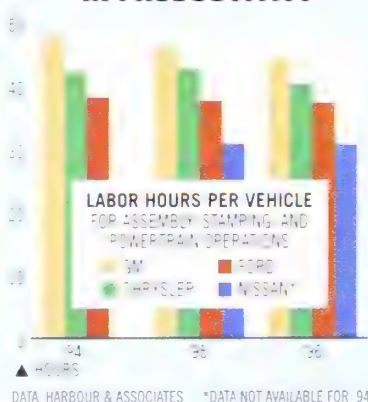
larger GM for the second year in a row. Ford's productivity surpasses GM's—vehicles per blue-collar worker compared to GM's 27.3—despite GM's shedding some 64,000 hourly workers since 1980. Hackworth concedes GM trails Ford, but blames it on GM's greater reliance on house parts, which makes it harder for GM to trim costs.

TWO-YEAR TURNAROUND. Racing to turn around Roger Penske has proved that GM workers can come around the way Ford has. When he bought GM's money-losing Detroit Diesel engine-making business in 1988, he inherited a UAW local with a history of fierce labor conflict. Penske worked painstakingly to rebuild relations by getting the union involved in improving quality and efficiency. Detroit Diesel went from losing \$30 million a year under GM to earning profit-sharing for its workers in two years. Last year, Detroit Diesel earned \$30 million.

Former Chrysler executive Rick Dauch worked

similar turnaround at GM's axle business, which he acquired in 1990. It went from losing \$250 million in the last five years to making \$100 million in operating income over the past three years and is going to close this fall. "An experienced worker can be an invaluable asset in restructuring," says Dauch. Shaiken, labor

GM TRAILS THE PACK IN PRODUCTIVITY



RAIL LAZER

Katrina Garnett
Founder, President and CEO
CrossWorlds Software

Age

Younger than Bill Gates,
older than Michael Dell

Birthplace

Australia's Gold Coast

Background

10 years on the firing line
at Oracle and Sybase

Recent Thrill

Flying 360-degree
inverted loops
in a SF260 Marchetti

Favorite Charity

Started Garnett Foundation
to encourage girls to
pursue technical careers

Mission

Build software applications
that unite the operations
of global enterprises

Product

CrossWorlds United
Application Architecture
UAA

CrossWorlds'

Patents Pending
5 (so far)

Key Customers

Siemens, US West,
Primestar, Farmland,
Bay Networks

Corporate Investors

Raised \$45M from
Intel, Compaq,
SAP, Manugistics,
JD Edwards,
Ernst & Young

Bigtime Backers

Dave Duffield,
Michael Dell,
Andy Ludwick

Next Target

Enterprise software
connecting global
corporations
with their suppliers,
customers,
and partners

Professional Credo

Aim high — then deliver

Photograph by Richard Avedon

www.crossworlds.com

fessor at the University of California at Berkeley. "But instead of GM's workforce being an ally, it's an adversary."

Part of the problem is GM still needs to cut capacity to match its falling market share—even as the company racks up record profits. That's a hard message to send in the midst of an auto boom. And the big paychecks for GM's top brass don't help. "If they are not competitive," says UAW Vice-President Richard Shoemaker, "how do they justify paying top executives more than \$22 million in cash over the past two years, plus an additional \$35 million in stock options?"

Given such rancor, some analysts believe that only a radical departure from GM's old ways of doing things can bring positive results for the company. "It's beginning to look like the two sides will need a much more revolutionary approach," says analyst John Casesa of Schroder & Co. "Each individual settlement has some productivity gain, but unless you string these settlements together quickly, you don't get much benefit from them." He suggests sweeping changes to the UAW national agreement with GM: perhaps closing aged plants, building new ones, and giving the UAW

the chance to organize them with labor agreements, modeled on what has at its Saturn division.

Certainly, the settlement of the strike at two Flint plants won't be the end of GM's labor woes. Stamping in Indiana and Ohio and parts plants in Ohio and Michigan could go on this year. And the planned shutdown of Flint's Buick City plant could lead to further labor unrest there. That could convince more investors that GM's wars are producing enough victories.

By Bill Vlasic, Keith Naughton, Kathleen Kerwin in Detroit

UNIONS

DISORGANIZED LABOR

Sweeney's dismissal of his chief organizer sparks a furor

John J. Sweeney won the presidency of the AFL-CIO in late 1995 with a bold message: Unions must reinvent themselves to grow again. Ever since, he has exhorted labor leaders to focus their efforts on signing up new members.

Now, Sweeney's bid to revitalize labor has been dealt a setback—and he himself has delivered the blow. On June 8, Sweeney abruptly fired AFL-CIO Organizing Director Richard Bensinger, the brains behind labor's recruitment strategies and its charismatic proselytizer. Why? Angry Bensinger supporters say he was removed because Sweeney's aides—Chief of Staff Robert W. Welsh and Public Affairs Director Denise Mitchell—saw criticisms by organizers as a threat to their programs. Mitchell says organizing is Sweeney's priority, but "it takes a range of strategies to make labor grow again." Bensinger declined comment.

"WRONG APPROACH?" The dismissal has kicked up a firestorm of protest, and some union leaders now fear that Bensinger's removal will set back their battles to refocus their own unions on recruitment. "A lot of what I've done I've taken from Bensinger," says Robert E. Wages, president of the Oil, Chemical & Atomic Workers. "Now he's been canned and my [executive] board is asking me, 'Does this mean his approach is wrong?'"

Long term, the failure to organize workers could damage labor more than all the scandals involving the Teamsters. While the tight labor market gives labor



the best opportunity in years to score victories in contract negotiations and entice new members, Sweeney may be mired in an internal squabble.

It's easy to see why Bensinger, 47, became a lightning rod. He bluntly tells union leaders that their inaction is responsible for labor's decline. For two years, Bensinger has toured the country with slides of labor's plummeting membership, telling locals that the trend will continue unless they change. His strategy is tough medicine: Put staff on recruitment and cut back on grievances and bargaining, a union's core functions.

The irony is that Bensinger's work is paying off. He has helped plan internal restructurings at many unions, including the auto and electrical workers. All are readying efforts to recruit members across entire industries, such as auto parts, or at big companies such as General Electric Co.

Locals are listening, too. Some 150 have shifted at least 10% of their budgets to organizing. "Richard has made

SWEENEY
Strife at the top of the AFL-CIO could cost labor its best chance in years to score victories and win new members

his organizing views more conventional wisdom than unions," says Bruce Layton, Secretary-Treasurer of the needle trades union.

So why was Bensinger dumped? Because Sweeney's aides thought he was wasting money on organizers, insiders say. Many organizers have been criticized a \$10 million-a-year

program that helps locals with police membership drives and a \$20 million-a-year plan for a television advertising campaign to bolster the image of unions. This money, they say, should go to recruitment. Organizers even charge Sweeney with failing to allocate the rest of his budget he pledged to spend on organizing. AFL-CIO officials deny such charges, saying organizing and contract programs foster recruitment.

How Sweeney handles the aftermath of Bensinger's dismissal could be key to the damage it will do. If unions see him backing away from organizing, the aim of massive recruitment drives will suffer just as it's taking off.

By Aaron Bernstein in Washington



PEOPLE ARE NOTICING THE INVESTMENT BANK THAT SPECIALIZES IN GROWING COMPANIES.

Growing companies want investment banking, corporate banking, merchant banking and wealth management — all in one place.

They want full service without fat. Brains without bureaucracy. Capital without complications. Everything from credit, debt and equity financing to mergers and acquisitions advice, risk management products and principal investing. All from a team of professionals who know what a growing company needs — because they're continually building one too.

Visit our web site at www.cibcwm.com to see for yourself.

Nobody knows more about growing companies than we do.

CIBC
World Markets

NEW YORK: CIBC OPPENHEIMER

TORONTO: CIBC WOOD GUNDY

Beijing Boston Calgary Chicago Dallas Denver Frankfurt Hong Kong Houston Kalgoorlie London Los Angeles
Mexico City Miami Montreal New York New York Singapore St. Louis Sydney Taipei Tokyo Vancouver

INVESTMENT BANKING

CORPORATE BANKING

MERCHANT BANKING

COMMENTARY

By John A. Byrne

AT LEAST CHAINSAW AL KNEW HOW TO HIRE A BOARD

Ousted Sunbeam Chairman and Chief Executive Albert J. Dunlap, arguably the most reviled executive of this decade, did do one thing right: He, perhaps inadvertently, created an independent board from the group of friends that he hand-picked as directors. How? By insisting that they be paid in company stock and that they buy company stock. In the end, this independence—and the financial pain that each director was feeling—was Dunlap's own undoing.

Things began to unravel after a June 2 board meeting at which direc-

directors has any significant experience in business operations. The five outsiders were a New York lawyer, a banker in Boca Raton, Fla., where Dunlap lives, the head of a charitable foundation, a law professor, and the representative of an investment fund that owns 17.4% of Sunbeam.

Every one of the outsiders, with the exception of Peter A. Langerman of Franklin Mutual Advisers Inc., thought of Dunlap as a friend. Howard G. Kristol was Dunlap's personal attorney for two decades and helped put together his employment contracts at Sunbeam, Scott Paper Co., and other companies he led. Another was William T. Rutter, who manages private banking at Dunlap's bank, First Union National Bank of Florida.

But one thing bonded them: They all owned too much of Sunbeam to watch quietly as it started to sink. Charles M. Elson, a Stetson University law professor, and Kristol each bought 6,000 shares. For Elson, this was not an inconsequential investment. He had more equity tied up in Sunbeam than he had in his residence.

In three months, Elson and Kristol saw their net worths plummet by more than \$315,000. Faith Whittlesey, who heads the American Swiss Foundation, lost nearly \$200,000; banker Rutter was out \$112,000. Langerman's fund took the biggest hit, of course, dropping in value by \$614 million.

To paraphrase Samuel Johnson, nothing quite concentrates the mind as wonderfully as a loss of your own money. "The governance lesson is that an equity-holding board works," says Elson, who made the motion to dump Dunlap. "It was not a long, agonizing process. We did what a board had to do."

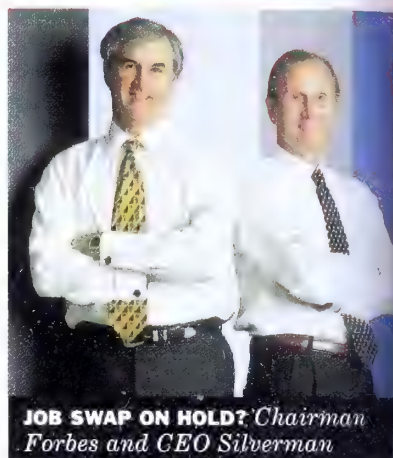
Senior Writer Byrne covers corporate governance.



DOG DAYS FOR DUNLAP: His directors owned too much stock to watch the company founder

tors discussed a *Barron's* article alleging that Dunlap cooked the books to create a bogus turnaround at Sunbeam Corp. last year. Skeptical directors began to press Sunbeam executives for details. They discovered that the appliance maker—which had earlier shocked investors with a \$44.6 million first-quarter loss—was going to fall far short of Dunlap's optimistic forecasts for the rest of the year. Four days later, the directors canned "Chainsaw Al" at a special meeting—at which, insiders say, nobody spoke in his defense.

BIG STAKES. It was a remarkable performance, given the cast of characters on Sunbeam's board. There are no CEOs in the group—not even a retired chieftain. In fact, none of the



JOB SWAP ON HOLD? Chairman Forbes and CEO Silverman

EXECUTIVE SUITE

CENDANT DESCENDING

First, an accounting mess, now, maybe a management

Cendant Corp.'s stock market comeback has suffered a comedown late. In mid-April, the company—darling of the bull market—startled Wall Street by announcing accounting irregularities that would force it to rest earnings. The stock plummeted 46%, 19%, in one day. But then Cendant seemed to be recovering as the stock rose to 25 by late April.

Now, it's losing altitude again. Why? Investors are increasingly nervous about a possible management crisis at the company, which was formed year by the merger of franchiser Inc. and discount buying club operator CUC International Inc. Under that deal, HFS head Henry R. Silverman, Cendant chief executive, and Cendant founder and Cendant Chairman Walter A. Forbes are to swap jobs in January 2000. Yet analysts and investors hearing from insiders that the swap is no longer a sure thing. Some shareholders now worry that board members, including Silverman, will block transition and perhaps create more turmoil at the company.

The root problem is the cost of justifying results at some CUC businesses. The company estimates the adjustment will mean reducing 1997 net income up to \$115 million. The company has specified what exactly is wrong with CUC's books, and the board's audit committee, which is performing an inv-



Hotel Inter-Continental Singapore

You're always in the heart of the city
and at the soul of the culture.

One World. One Hotel.
Uniquely Inter-Continental.



INTER-CONTINENTAL

HOTELS AND RESORTS

www.interconti.com

ASIA PACIFIC,
BAI
BANGKOK
BEIJING
CHENGDU
COLOMBO
JAKARTA
KUALA LUMPUR
MANILA
NEW DELHI
PHNOM PENH
SEOUL
SINGAPORE
SYDNEY
TAIPEI
TOKYO
YOKOHAMA

EUROPE
AKMOLA
AMSTERDAM
ATHENS
BARCELONA
BELGRADE
BERLIN
BRATISLAVA
BRUSSELS
BUCHAREST
BUDAPEST
CANNES
CRACOW
EDINBURGH
FRANKFURT
GENEVA
THE HAGUE
HAMBURG
HANNOVER
HELSINKI
ISTANBUL
KEMER
LEIPZIG
LJUBLJANA
LONDON
LUXEMBOURG
MADRID
MALTA
MONTREUX
MOSCOW
MUNICH
NICOSIA
PARIS
PRAGUE
ROME
STUTTGART
TASHKENT
VIENNA
WARSAW
ZAGREB
ZURICH

AMERICA
BOGOTA
BUENOS AIRES
CALI
CARACAS
CHICAGO
CIUDAD GUAYANA
COZUMEL
DALLAS
GUADALAJARA
IXTAPA
LOS ANGELES
LOS CABOS
MANAGUA
MARACAIBO
MEDELLIN
MEXICO CITY
MIAMI
MONTREAL
NEW ORLEANS
NEW YORK
PANAMA CITY
PUERTO VALLARTA
RIO DE JANEIRO
RIO NEGRO
SAN FRANCISCO
SAN JOSE
SAN PEDRO DE SULA
SAN SALVADOR
SANTIAGO
SANTO DOMINGO
SAO PAULO
TORONTO
VALENCIA
WASHINGTON, D.C.

MIDDLE EAST
ABHA
ABU DHABI
AL AIN
AL JUBAIL
AMMAN
BAHRAIN
BEIRUT
CAIRO
DUBAI
HURGHADA
JEDDAH
MADINAH
MEKKAH
MUSCAT
PETRA
RIYADH
SHARM EL SHEIKH
TAIF

AFRICA
ABIDJAN
CAPE TOWN
DURBAN
FRANCEVILLE
JOHANNESBURG
KINSHASA
KROONPRINS PARK
LIBREVILLE
LUSAKA
NAIROBI
VICTORIA FALLS
*FORUM HOTEL

gation, is expected to issue a report later this summer. The CUC operations, which sell memberships in discount buying clubs such as Shoppers Advantage, are believed to have recognized some revenues early and delayed recognizing some expenses.

Analysts are now figuring that the accounting-problem fallout will hurt Cendant's earnings in coming quarters, too. For example, since the company does not have current, audited financial statements because of the investigation, it is paying a higher rate on \$3.25 billion in debt that it assumed in May to finance some acquisitions.

STRAINED RELATIONS. Several analysts say the debacle has severely strained relations between Silverman and Forbes. And while most investors don't believe Forbes knew of the accounting problem, they hold him responsible. "Walter either knew or should have known," says one large investor. "He doesn't have a leg to stand on."

A Cendant spokesperson says there is no change in the succession plans at the company. Forbes echoes that, saying: "I'm not leaving." Still, David P. Brady, a portfolio manager at Stein Roe & Farnham, a large Cendant stockholder, says Cendant executives in a recent meeting hinted that Forbes

might not take the CEO slot as planned. Analysts fret that a move by directors to oust Forbes could provoke a disruptive battle for control.

Meanwhile, the membership clubs may face margin pressure, due to rising marketing costs. That and the higher interest expense

contributed to PaineWebber Inc. analyst Craig Bibb's cut in second quarter estimates from 32¢ per share to 23¢. For the year, he has cut estimates by 10¢, to \$1.10. But Bibb cites the continued strong growth in former HFS businesses, including Century 21 Real Estate, and figures Cendant earnings can still expand by 20% a year.

That's not quite the 25% rate Wall Street had expected before the accounting bombshell. Nevertheless, if Silverman can get the business back on track—and avoid a management war—Cendant may see its stock pointed upward again.

Amy Barrett in Philadelphia

SOFTWARE

A FEATHER IN APACHE'S CAP

IBM throws its weight behind the "freeware" program

Pop quiz: What company makes the most popular software for running Internet servers? If you guessed Microsoft or Netscape, you're wrong. It's the Apache Group—which isn't even a company but a coalition of volunteer programmers who work on the Apache server program and distribute it for free across the Net. While it might not be a household name, Apache runs on



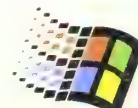
Apache

49%



Netscape

9%



Microsoft

22%

DATA: NETCRA

roughly half of all servers connected to the Net, including those at Yahoo!, UUNET, and Digital Equipment.

Apache is about to get a higher profile, however, and that could shake up the Internet software business. On June 22, IBM is expected to throw its weight behind the "freeware" program by announcing plans to provide support for companies that use Apache—the same way it supports its own software products. It also plans to join in the development of new versions of the software, adding features that appeal to corporate customers. IBM won't charge for basic Apache software but will charge for these add-on products.

Why is IBM, which pays thousands of programmers to come up with products to sell, getting into freeware? It will help restart IBM's Net software strategy, which has been built around products such as Notes and Domino from Lotus Development Corp. By adopting Apache, IBM gets the market-leading Web server—which it plans to mesh with Web server software from Lotus. That's a potent

antidote to Microsoft's Web offerings.

It's also shaking up the status quo. With IBM's support, companies that feel uneasy about relying on a freeware product may now adopt it. "Suddenly it's a much safer decision today than was yesterday," says Bob Young, president of Red Hat Software, a freeware shop in Durham, N.C.

IBM's embrace of Apache is also a buff to Netscape (page 106), which is trying to rebuild its strategy around server programs for corporations. In the past few years, IBM and Netscape have talked about teaming up more intensely. Now, that seems unlikely to happen. Worse, the move puts a freeze on Netscape's profits. Microsoft already gives away a basic Web server with its NT operating system, and now Apache is a more serious threat in the

business market. Netscape has already sacrificed profits on its browser—choosing to give it away to match Microsoft. IBM figures that Web server software should be free. "This type of server is a commodity," says Paraic Sweeney, IBM's vice-president for Web server marketing. IBM and other companies will focus on higher value-added products such as applications programs that run on top of the basic server programs, he says.

Will IBM's Apache maneuver lead more big players to go into freeware? This "will make Microsoft and Netscape sit up and take notice," says Randy Tebush, a member of the Apache board and the chief technology officer for

valent Technologies. Netscape, Oracle, and Sun Microsystems are said to be considering supporting Apache as well as Linux, a popular freeware operating system. "You're going to see this huge avalanche of serious commercial organizations" jumping on the freeware bandwagon, says Young. The more the merrier—for customers, that is.

By Amy Cortese with Ira Sager in New York

Big Blue is shaking up the status quo, and now companies may feel more comfortable about relying on freeware

EDITED BY PAT WECHSLER

AT&T AND AOL WING UP FOR NOW

AT&T IS NOT OPTIMISTIC out a deal to buy America line, says an AT&T insider, unless the world changes dramatically." Still, reports at the telecommunications ant had expressed interest buying the online kingpin it AOL's shares soaring 5% June 17. While confirming it the two companies did cuss the possibility of a e, AT&T sources say negotiations stalled primarily cause AOL CEO Stephen se wants to retain control er his company. With AOL, ET would get 12 million ernauts and could bundle communications services h AOL's Net service. And OL teamed up with AT&T,

it could save as much as \$1 billion annually in network charges.

THE TOBACCO BILL GOES UP IN SMOKE

A YEAR AFTER BIG TOBACCO'S historic settlement with the states, opponents in the Senate snuffed out anti-tobacco legislation on June 17, effectively killing chances of a comprehensive tobacco bill passing Congress this year. Democrats will step up efforts to make the collapse of the bill a political issue in the Nov. 3 elections, portraying Republicans as pawns of Big Tobacco. That could prod GOP leaders to consider a scaled-down version that would focus on reducing teen smoking and drug use. But for now, Senator John McCain (R-Ariz.), the bill's chief sponsor, is loath to consider a more modest proposal.

IT'S WARM. IT'S FUZZY. IT'S RUSSIA

QUICK! CALL THE COMMISSAR of public relations! Russia feels it has been unfairly tarred as a lawless country where organized crime runs rampant and shareholder rights go unprotected. At least that's what 14 Russian investment houses, including Troika Dialog, fear. So they're hiring spin doctors Burson-Marsteller for an image overhaul. The goal: make Russia look like a safe place to invest. The group isn't blaming it all on bad PR; it also plans to lobby the government and companies for more disclosure.

DIRTY TRICKS FROM MACK TRUCKS?

PROGRAMMED TO POLLUTE? The Justice Dept. on June 15 filed a civil suit alleging that

HEADLINER: JOHN ROTH

NORTHERN TELECOM'S NET GAME

Lucent Technologies may have stolen the telecom limelight in the past couple of years, but John Roth's \$7 billion purchase of Bay Networks has put his Northern Telecom at center stage. The June 15 deal unites \$15.5 billion Nortel and \$2.2 billion Bay, joining a nimble old-line maker of telecom gear with a cutting-edge data-networking firm.

For Roth, 55, a technologist who has led Nortel since last October, the merger is a fast way to take advantage of the Net's explosive growth. He's betting that Bay's engineers will help Nortel de-

sign systems that merge voice, data, and video transmissions on the Net.

If successful, the effort will make current phone-switching systems look like antiques. Even before then, the deal creates a single supplier for voice and data gear.

Following technology markets is Roth's stock in trade. A 30-year Nortel veteran, the one-time design engineer ran the Canadian outfit's R&D arm in the early '80s and helped launch its wireless business. He also advises Canada's Prime Minister on science and technology.

By Joe Weber in Toronto



CLOSING BELL

POWER FAILURE

anpower needs help. The world's top staffing company took investors on June 16 with an earnings warning. Rising costs from new information systems and from falling margins in French operations will cut second-quarter earnings by 39%. But some followers think Manpower's problems also stem from snagging too many big corporate accounts at thinner margins. Analyst Judith Scott Robert W. Baird figures revenues will rise 16% this year, to \$8.5 billion, but net will fall 29%, to \$115 million.



JUNE 10, '98 JUNE 17
DATA: BLOOMBERG FINANCIAL MARKETS

Mack Trucks is selling diesel engines equipped with devices that defeat emission-control systems. Justice says the trucks' electronic fuel-injection systems are programmed in such a way that they emit illegally high amounts of nitrogen oxide on the road but appear to conform to Clean Air Act standards when tested. The feds want no more engines like these sold and a recall of those on the road. The suit follows recent settlements with Honda's U.S. operations and Ford on similar charges.

EXCEL'S NEW WORLDVIEW

THROUGH A \$3.1 BILLION merger with Teleglobe of Montreal, announced on June 14, Dallas-based Excel Communications will jump-start its plans to expand worldwide. Founded by Kenny Troutt a decade ago, Excel

has grown to \$1.5 billion in revenues through an Amway-style army of independent sales representatives. By marrying Excel's distribution channel with Teleglobe's intercontinental network, the two players plan to extend Excel's marketing model to other countries and expand the telecom products that Excel reps sell. Teleglobe's Charles Sirois, 44, remains the chief executive of the merged company, while Troutt, 50, stays on as COO.

ET CETERA...

- Microsoft made a killing on the \$285 million sale of digital animator Softimage.
- A U.S. court lifted the FDA ban on Cholestin, a cholesterol-lowering supplement.
- Raytheon picked AlliedSignal Vice-Chairman Daniel Burnham to be its next CEO.
- McDonald's will cut 23% of its Oakbrook (Ill.) headquarters staff.

With twice the power of its high-end predecessors, the new CMOS-based S/390 G5 enterprise server easily handles the largest workloads. It supports UNIX, Java and hot new apps like SAP R/3, Baan, PeopleSoft, Oracle Applications and Lotus Domino. It even helps reduce cost by enabling server consolidation. And all this can be run as a single enterprise system. Looking to do business on the Net? The S/390 server offers Parallel Sysplex® technology with unsurpassed 99.999% availability and bulletproof security. To put a lot more server behind your enterprise, visit www.s390.ibm.com/g5 **IBM S/390: The defining standard in enterprise computing.**



YOU MIGHT BUY THE IDEA
THAT A LOT OF SERVERS
CAN DO THE JOB
OF THE **NEW S/390 G5 SERVER.**



BUT THEN YOU'D
HAVE TO BUY
A LOT OF SERVERS.

EDITED BY OWEN ULLMANN

VICTORY IN NOVEMBER WILL BELONG TO THE PARTY THAT SHOWS UP

Election '94 was dominated by the angry white male; '96 by the soccer mom. Now, campaign '98 is shaping up as a fight for the shoulder-shruger. With Americans lulled by buoyant economy, turnout this fall will decide who controls the House. That's why old-fashioned, get-out-the-vote drives will command as much attention as slick ad blitzes.

Pollsters expect only 1 in 3 of those eligible will vote—a record low. That is a boon for Republicans: Their better-educated and higher-earning troops are more likely to trek to the polls. But Democrats, needing just 11 more seats to reclaim the House, are targeting minorities and labor. "We're making sure our candidates don't take these voters for granted," says Matt Angle, executive director of the Democratic Congressional Campaign Committee.

Democrats don't need to be reminded that the GOP swept to victory in '94 on a surge of new voters: 9 million more than voted for Republican House candidates in '90. Although GOP leaders credit the Contract With America for the triumph, party strategists say a crucial factor was a grassroots campaign to draw religious conservatives to the voting booth.

OFF-YEAR SLUMP. A back-to-basics approach suits the Democrats' meager budget. The GOP has the edge in funds for House campaigns (\$5 million to \$23 million), so Democrats are concentrating on 15 seats where more African American votes can make a difference. A 5% rise in African American turnout could swing several Republican districts their way, says Democratic strategist Mark Gersh.

That's no easy feat. Turnout slumps in off-year elections: just 38.6% of eligible voters went to the polls in 1994, down from 49% in '96. But Democratic pollster Ron Lester says "a goal of 40% [of black voters] is reachable." To woo more African Americans, Democrats are dispatching influential leaders, such as Representatives Charles B. Rangel of New

York and Maxine Waters of California, to key districts. And taking a leaf from the GOP playbook, Dems are putting new focus on helping low-income voters cast crucial mail-in ballots if they can't leave work on Election Day.

To lift Hispanic turnout, Democrats are stoking Latino ire over GOP measures to ban affirmative action, cut welfare to legal immigrants, and require English in government offices. They are using Spanish-language media to get their message out. And they'll be blast-faxing some incendiary comments of

GOP hopeful Robert K. Dornan of California, regarded by many Hispanics as a Latino-basher.

Labor is the other key to the Dems' plan. Some 40% of union members aren't registered to vote—a huge opportunity. The AFL-CIO plans to spend millions more on labor turnout than it did in '96, when half of a \$35 million union war chest went for get-out-the-vote efforts. Already, 300 union field coordinators—up from 135 in '96—are fanning out nationwide. They will oversee thousands of foot soldiers, many mobilized in California this spring to defeat an anti-union ballot initiative. "Labor will be heavily involved," says a party operative, "but it will be more subtle this time around."

The GOP strategy? Ride the coattails of popular governors up for reelection, such as George Pataki in New York, George W. Bush in Texas, and Tom Ridge in Pennsylvania. "These people

have huge campaign funds," says Representative John Linder (R-Ga.), who heads the National Republican Congressional Committee. The GOP also aims to reenlist the Religious Right by pushing such issues as a reduction in the marriage tax penalty and a constitutional amendment to allow public-school prayer. "We got this thing running on all cylinders," says Christian Coalition Executive Director Randall J. Tate. Now, if it can just drive those voters to the polls.

By Amy Borrus, with Aaron Bernstein



RANGEL: *Getting out the vote*

CAPITAL WRAPUP

GOP SENATE SWEEP?

Republicans have set their sights on a record-setting election in the Senate this year. GOP strategists say the party should capture at least two and as many as six seats from vulnerable Democrats. If Republicans can add their current 55-45 majority by just one, they will boast the largest number of senators since Herbert Hoover's 1928 landslide. The GOP's team: reach a filibuster-proof 60. The party hasn't had that since Teddy Roosevelt was President.

PRODUCT-LIABILITY REFORM

► After 20 years of snags, product-liability reform looks imminent. The White House and Senate Republicans have struck a compromise that Majority Leader Trent Lott (R-Miss.) may bring to a vote in July. The bill falls far short of backers' original goal: It sets a \$250,000 cap on punitive damages—but just for companies with less than \$5 million in revenue and fewer than 25 employees. Lobbyists want Big Business to go along with this bill and try for more later.

SUPERSTEAMED AT GORE

► With Republicans and Democrats in Congress close to a deal on Superfund reform, the White House has lost interest. After years of struggling for a compromise plan for cleaning up toxic-waste sites, lawmakers from both parties are fuming that they're being tripped up by Al Gore. The Veep wants to nix a Superfund deal so he can attack Republicans as anti-environmental. Meanwhile, the clock is ticking: Superfund's last \$2 billion will run out by the end of 1999.

FRANCE

A QUIET REVOLUTION

Shaking up the Gallic economic model

The deal was a mold-breaker. In May, French Defense Minister Alain Richard for the first time awarded a naval ship-repair contract to a private company rather than the state-owned shipyard in Toulon. The \$2 million winning bid was half that of the state shipyard, and the company promised to do the job in a third of the time. Toulon workers struck for eight weeks in protest, to no avail.

A quiet revolution is sweeping tradition-bound France, whose government-dominated economy looks increasingly outmoded. Until now, efforts to modernize its distinctive welfare state amounted mainly to privatizing the biggest companies. Now, the forces of globalization, technology, and deregulated markets are encouraging reform-minded French people to change the system itself.

A small but growing army of citizens want to shrink the state's role, reverse a pervasive hostility toward entrepreneurs, and erase the handout mentality that is ingrained in French society. The fighting forces come from every walk of life, from entrepreneurs and shareholder activists to government officials and labor leaders. They have little in common except the belief that France must rethink the centuries-old economic model it has held so dear. "France is the only country that still has its head

in the 1970s," says Christian Saint-Etienne, a Paris-based economist.

Even Prime Minister Lionel Jospin, scheduled to arrive in Washington on June 18 for a state visit with President Bill Clinton, has begun injecting the concept of "modernizing France" into his speeches. His Socialist government has sold off more state companies, begun reversing laws that hobble new businesses, called for education reforms, made the Internet a national priority, and slashed the number of jobs public officials can hold at one time.

SLOWLY BUT SURELY. The country is far from embracing U.S.-style capitalism. But advocates of reform are turning up the heat on Jospin's government. A top priority, they believe, should be shrinking government outlays from 54% of gross domestic product today to somewhere around 47%. That would still exceed public spending in the U.S. and Britain but would represent a major shift for France. Advocates of change also want a more flexible labor market, in which companies can negotiate individually or by sector rather than being bound by rigid national laws.

A new generation of executives wants to replace the worker-vs.-capitalist enmity in France with a more democratic, motivating relationship that spreads wealth through employee shareholding. During a recent public offering of shares



in industrial giant Saint-Gobain, a surprising 40% of the company's blue-collar workers bought stock. "The model that makes Microsoft's employees so happy could be transplanted to France," says CEO Jean-Louis Beffa.

The reformers face daunting resistance. Nearly 25% of French workers are employed by the state, receiving generous pay, benefits, and early-retirement packages. Politicians push tax ever higher to fund the country's bankrupt social security system, rather than reform it. Unionized civil servants in the transportation sector regularly shut France down with nationwide strikes, demanding pay hikes and resisting any benefit cuts. Unemployment compensation is so high that taking a minimum wage job is uneconomical. Overall, only 38% of the French population works, versus a weighted average of 48% in the U.S., Japan, and Germany.

Advocates of reform are putting pressure on Paris to shrink government spending, make labor markets more flexible, and embrace startups



JOSPIN: "MODERNIZING FRANCE" IS A PRIORITY



ditions are giving way to economic reality.

Even some government enterprises are bucking the system—behind closed doors. In the early 1990s, state-owned Company X needed massive restructuring and layoffs to survive. At a meeting at its Paris headquarters, union leaders said they would negotiate, on the condition that management keep their agreement secret. Not a word was leaked to the press. Over the next several years, Company X shed nearly half its 40,000 workers without a strike. It has expanded internationally and gets 70% of sales from exports. To this day, few outsiders know about the layoffs.

TECH LOOPHOLE. At private French companies, management is brainstorming to find ways around barriers to growth. Take the example of a new law that shortens the French workweek to 35 hours starting in 2000, from 39 now. Global software companies, whose programmers often log 60 to 70 hours a week, would have to flee France to re-

main competitive. So some CEOs will bypass the law with technology, giving employees personal computers, E-mail software, and remote access to the company's network. "Our people will be able to work 35 hours in the building and around the clock from home," says the CEO of one technology company.

Indeed, the need to nurture French technology startups to create jobs could become one of the most powerful tools for dismantling the old state-dominant French model. Faced with a chronic un-

the forces of globalization seem to erode the state's stubborn will, slowly but surely. The Euro-Union's evolution into a single market, in which each member must compete with the others for capital and is exposing France's sclerosis. Already in preparing for European monetary union on Jan. 1, 1999, member governments have had to benchmark their health against not only the EU's existing criteria but also against each other. That Europewide competition will increasingly galvanize French reform.

Union leaders, too, quietly admit that monetary union will change work rules by making countries compete for investment with attractive labor markets. A watershed of sorts was reached on June 9 when Air France's striking pilots accepted a deal that gives them a choice between a seven-year wage freeze and a 15% pay cut offset by share ownership. The pact, which will save Air France \$6 billion in personnel costs over seven years, was proof that France's labor tra-

main competitive. So some CEOs will bypass the law with technology, giving employees personal computers, E-mail software, and remote access to the company's network. "Our people will be able to work 35 hours in the building and around the clock from home," says the CEO of one technology company.

Indeed, the need to nurture French technology startups to create jobs could become one of the most powerful tools for dismantling the old state-dominant French model. Faced with a chronic un-

Where the Winds of Change Are Blowing

NEW BUSINESSES

Entrepreneurs number about 1 million. Young founders of growth companies are lobbying together for less regulation and lower taxes.

RESTRUCTURING

Executives are making shareholder value a priority, circumventing stifling work rules, and creating pay-for-performance compensation schemes.

LABOR GIVEBACKS

Renegade union bosses are forging agreements on a company-by-company basis, steering workers into flexible contracts that, over the long run, could save jobs.

MONETARY UNION

The imminent single currency has already forced industry to get in fighting trim. Now, the French government must compete with others in the EU.

HIGH TECH

Government researchers are being encouraged to launch technology startups, and large companies are no longer the focus of state R&D spending.

employment rate hovering around 12%, government officials have little choice but to pay closer attention to entrepreneurs' needs. That's encouraging young companies to fight for change.

Croissance Plus (Growth Plus), a one-year-old lobbying group made up of growth companies and venture capitalists, was founded to foster a business climate more favorable to Silicon Valley-type startups. The group already has persuaded the government to eradicate for young companies the social-welfare charges that were slapped on top of capital gains taxes on stock options. Altogether, such taxes and charges had amounted to 120%.

The message is getting through to some top officials. Finance Minister Dominique Strauss-Kahn and Technology & Education Minister Claude Allegre are working to make France friendlier to entrepreneurs. Besides the elimination of payroll taxes on stock-option gains at companies less than 15 years old, they have promised to change laws prohibiting scientists from holding shares in companies they collaborate with. That should help boost technology transfer from public institutes to startup companies and improve commercialization of breakthroughs that traditionally have failed to leave French labs.

HIGH TAXES. French entrepreneurs are relieved that the government has finally begun to address their concerns, but they insist Jospin has not yet tackled their biggest problems: high taxes and the rigid labor market. Total labor costs in France, including social-welfare charges, amount to \$16.91 an hour, vs. \$11.64 in Spain. As the single currency makes such discrepancies more obvious, pressure on the government will mount.

Jospin has a rare opportunity to tackle tough structural reforms while economic growth can ease the pain of cutbacks in benefits. The French economy is expected to grow 2.8% in 1998 and 3% in 1999. "It's a window of opportunity that won't last," warns Pascal Brandys, founder and CEO of Genset, a \$16 million French biotech company that is listed on NASDAQ.

The wrenching restructuring the private sector has already gone through in the name of global competitiveness is likely to put the public sector through an equally jolting shakeup. "We are at the end of the first wave of transformation and the beginning of the second wave," says Bruno Roger, a partner at Lazard Frères in Paris. For the troops toiling for change in France, that's the battle cry of the future.

By Gail Edmondson in Paris



GERMANY

PC HEAVEN—FOR CONSUMERS

An industry shakeout is under way as prices plunge

Andreas Kreutzer, a 39-year-old telecom consultant, heads into the Schadt Computertechnik store in Aachen, Germany, ready to bargain for a rock-bottom price. He's looking for a personal computer with an Intel Corp. Pentium II chip, 64 megabytes of random memory, and a 3.6-gigabyte hard disk. Wincing, the salesman offers a Schadt-assembled Proline computer for \$890. Not good enough. Kreutzer heads off to check deals at rival stores.

The era of cheap computers has arrived. Machines selling for under \$1,000, including value-added tax but excluding monitors, have grabbed a 30% share of Europe's retail market and are fueling a PC buying boom. Across Europe, PC sales soared 26% in the first quarter, compared with last year, according to Dataquest Inc. But the price wars are sparking a shakeout among PC makers and retailers—as they did in the U.S., where cheap PCs took off last year. Says Fujitsu Europe CEO Winfried Hoffmann: "Before this is over, there'll be a lot of blood on the table."

Much of the pressure is coming from surprising places. French and Belgian hypermarkets such as Carrefour and GB and German supermarkets such as Aldi Food and Lidl are selling PCs next to aisles of tomatoes. "The food stores use computers as loss leaders to get cus-

tomers in the store," says Sami Ayoub, managing director of Maxima, Belgium's No. 1 PC retailer. When Aldi recently offered a modestly powered computer for \$600, the chain sold 100,000 units in two days.

BERLIN STORE

Vobis, which assembles and retails PCs, may be for sale

While prices are sinking everywhere, the fiercest battle is in Germany. Here, retailers sold 1.25 million PCs in the first quarter. Two-thirds were unbranded clones. Over the same period, Compaq Computer Corp., Europe's market leader, grabbed only 8% of German sales, vs. 17% in Britain. Some companies are surrendering. Siemens-Nixdorf recently sold its PC manufacturing unit to Taiwan's Acer, while the Netherlands Tulip declared bankruptcy.

TOUGH TIMES. The competition has apparently hit Germany's 4,000 clonemakers. Industry wags say Vobis, the player with more than 19% of the market, has been put up for sale by its owner, the retailer Metro. Vobis "is a run loss leaders like Aldi," says Dataquest analyst Thomas Reunert. Vobis and Metro officials decline to comment. Analysts also question whether Vobis and other clonemakers can afford to build and retail PCs in this market. "You have to be an assembler or a retailer, not both," says Maxima's Ayoub.

Meanwhile, in Aachen, consultant Kreutzer decides against buying the \$890 computer at the Schadt store. He found a similar configuration \$150 cheaper down the street," he tells the salesman. In today's European computer market, the consumers are the winners.

By William Echelberry in Aachen, Germany

PRAXAIR IS A STEEL

producer's answer to a dilemma. We extract oxygen from air for injection into electric arc furnaces. Our oxygen converts potential carbon monoxide emissions into extra energy—making steel production faster, cleaner and less costly. Creating profitable solutions for our customers has made us a global 4.7 billion industrial gas company on a hot streak.



Making our planet more productive.

For more information please call 1-800-PRAXAIR e-mail: info@praxair.com ©1998 PRAXAIR, INC.

RUSSIA

WILL THE RUBLE BRING DOWN THE BANKS?

A devaluation could shatter Russia's financial system

For Russian bankers, these are nail-biting times. Week after week, as the government attempts to sell \$1 billion or more in Treasury bills to roll over its massive debt, speculation flares over whether a devaluation of the Russian ruble is inevitable. Now trading around 6.2 to the dollar, the currency is under severe pressure as jittery investors flee Russian markets. Only emergency loans or aid from the West will prevent a collapse of the T-bill market and the ruble, investors and financiers warn.

Russian bankers are particularly worried because a ruble devaluation of 20% or more threatens to wipe out their entire banking system. Even before the Asian flu spread to Russia, many of the country's banks were short of cash. Now, plunging stock and government bond markets are devastating a key source of their earnings. The weakening ruble is making it harder for banks to pay off \$500 million worth of syndicated loans that come due by August. Worst of all, the banks are on the hook for some \$200 billion in hard-currency forward contracts with Western investors—a huge bet that the ruble will keep trading at about its current rate. "If there is a devaluation, practically every bank will go bust," warns Lev N. Makarevich, analyst at the Association of Russian Banks in Moscow.

LOST FAITH? A devaluation and banking crash would be a huge blow to the Russian economy. That's true even though only a minority of Russians have bank accounts, preferring to keep money under the mattress or in the state-controlled Sberbank, which the government would never allow to fail. A devaluation would reignite inflation and kill the limited faith Russians have in recent years built up in the ruble. "We would live in a different financial system. The

government might nationalize some banks," predicts Alexei Vedev, chief economist of Moscow's Dialog Bank.

The only silver lining of a shakeout might be that stronger institutions could emerge over time. Many of Russia's 1,700 banks have made their money by



PERILS FACING RUSSIAN BANKS

WEAK RUBLE

Strains banks' ability to repay hard-currency loans from the West and cover dollar-forward contracts. Up to \$200 billion in contracts are coming due in the next few months.

PLUNGING MARKETS

Devastate banks' stock and bond portfolios even as pressure grows for banks to sell investments that would raise cash to meet clients' needs and regulatory requirements.

RIISING INTEREST RATES

Likely to boost nonperforming loans just as lucrative fees for government deposits, being shifted to a new federal Treasury, are lost.

DATA: BUSINESS WEEK

speculating in currency or high-yield securities rather than by taking deposits and making loans. That's why the Central Bank aims to cut the number of Russia's banks to 200 through mergers or closures over the next few years.

For now, though, banks are scrambling to boost their liquidity. Many have begun to sell off ruble assets such as T-bills and stocks—often at a loss. The funds go to buying dollars so banks can make their scheduled payments on syndicated loans. Even so, Tokobank, one of Russia's biggest banks, has failed to make international settlements on at least \$20 million of its \$320 million in foreign loans. The Central Bank took over management of the bank on May 1.

EXPORTING GOLD. The banks are also moving now to take advantage of last year's government decision to break the Central Bank's monopoly on precious metals exports. Oneximbank—Russia's fourth largest—became the first bank to export gold in late May. Oneximbank won't give details, but reports in the Russian press say the bank has exported one metric ton of gold and 12 metric tons of silver in recent weeks.

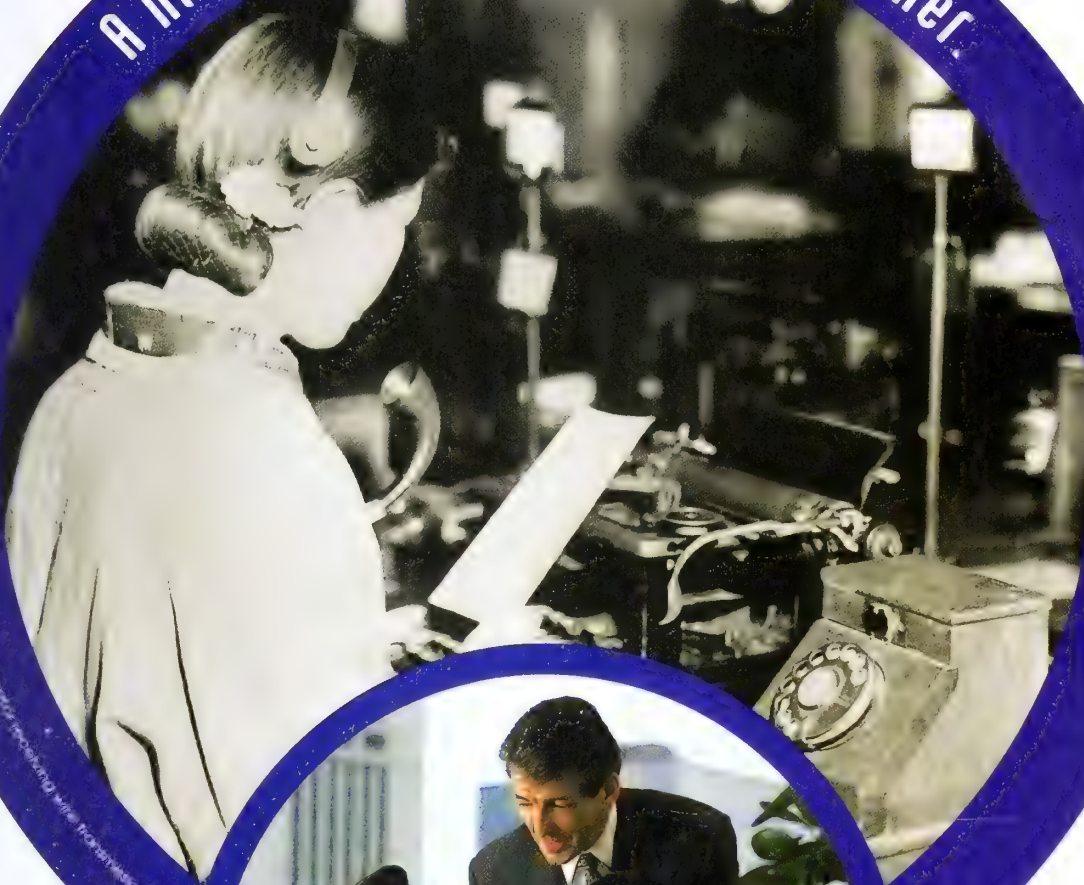
GAMBLE: Many banks make money by speculating on the Association of Russian Banks predicts Russian banks could export a total of 10 metric tons of gold in 1998. That would be worth about \$760 million at today's prices.

The biggest cloud, however, hangs over the Treasury-bill market. Not only have Russian banks relied on the ruble-denominated notes for chunks of their profits, but they have also earned fees by helping Western investors—those who flocked to the market last year—hedge their currency risk. To guarantee their yield in dollars, investors bought dollar forward contracts from Russian banks. Although no one knows the exact amount, analyst Tim Dooley at brokerage Flemings in London estimates that the banks could have \$198 billion in forward contracts still outstanding. To hedge their own risk, Russia's large banks bought currency options from small and midsize banks. Now, in effect, the banking system risks collapse in a domino effect.

That's why leading bankers will be watching warily as the International Monetary Fund and Russia's government haggle over terms of emergency aid. If a package comes through, Russia's markets calm down, the banks will gain breathing space. Then the pressure will be on them to get their financial houses in order before it's too late.

By Patricia Kranz in Moscow

A history of bringing people together.



Japan's leading telecom provider — NTT — has been connecting people and businesses with cutting-edge services for over 100 years. Today, our *Global Systems Integration Services* provide failsafe solutions for end-to-end corporate connections around the planet. And our *Arcstar Global Communications Services* unite major cities across the U.S., Europe and Asia with high-speed infocommunication highways. As we continue to branch into new areas, one principle is certain to endure: we're here to bring people together, now and for generations to come.

Arcstar

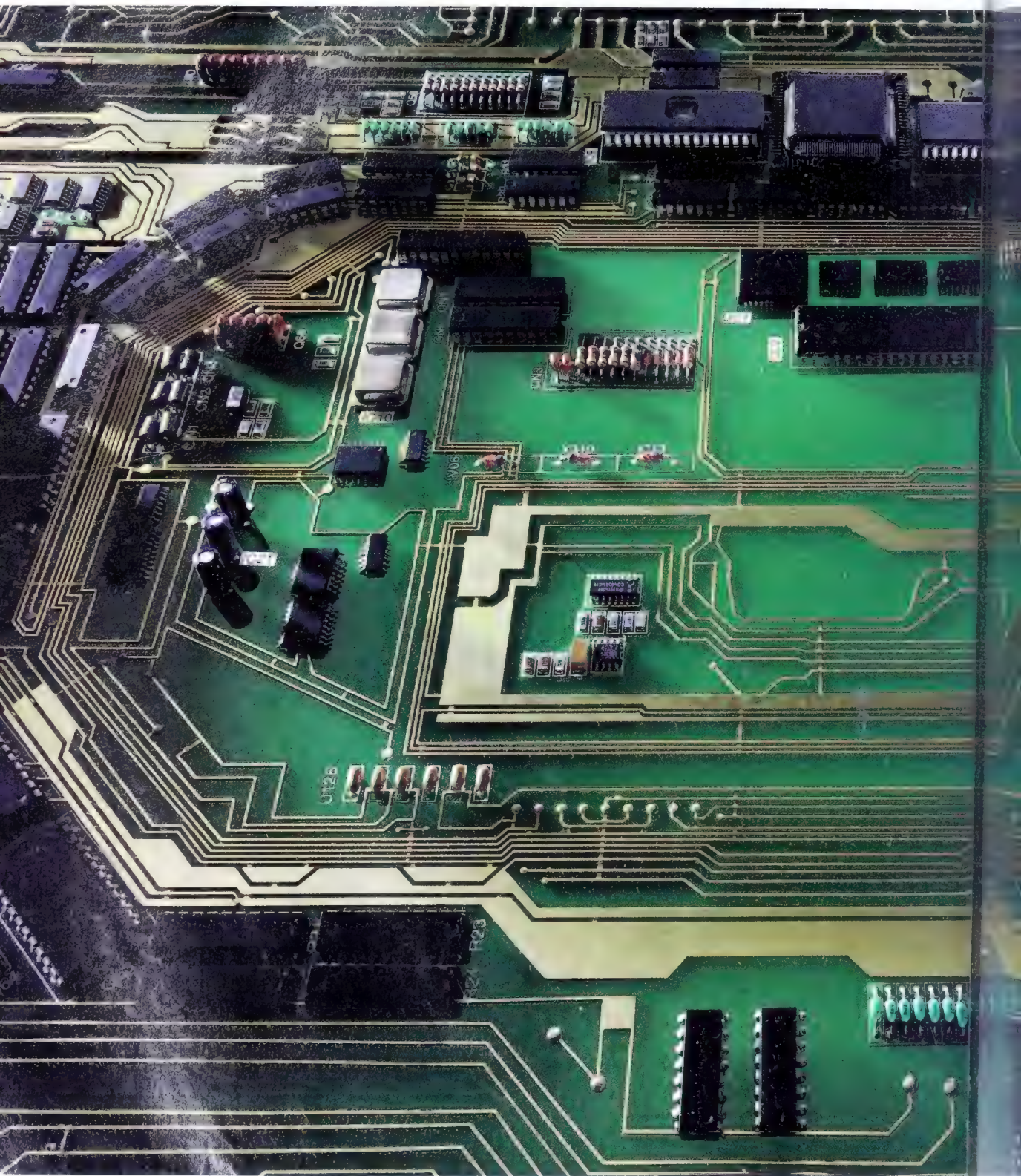
Connecting the world through multimedia

For more information on how NTT can connect you, call 1-800-4-NTT-USA, or visit our website: <http://info.ntt.co.jp>

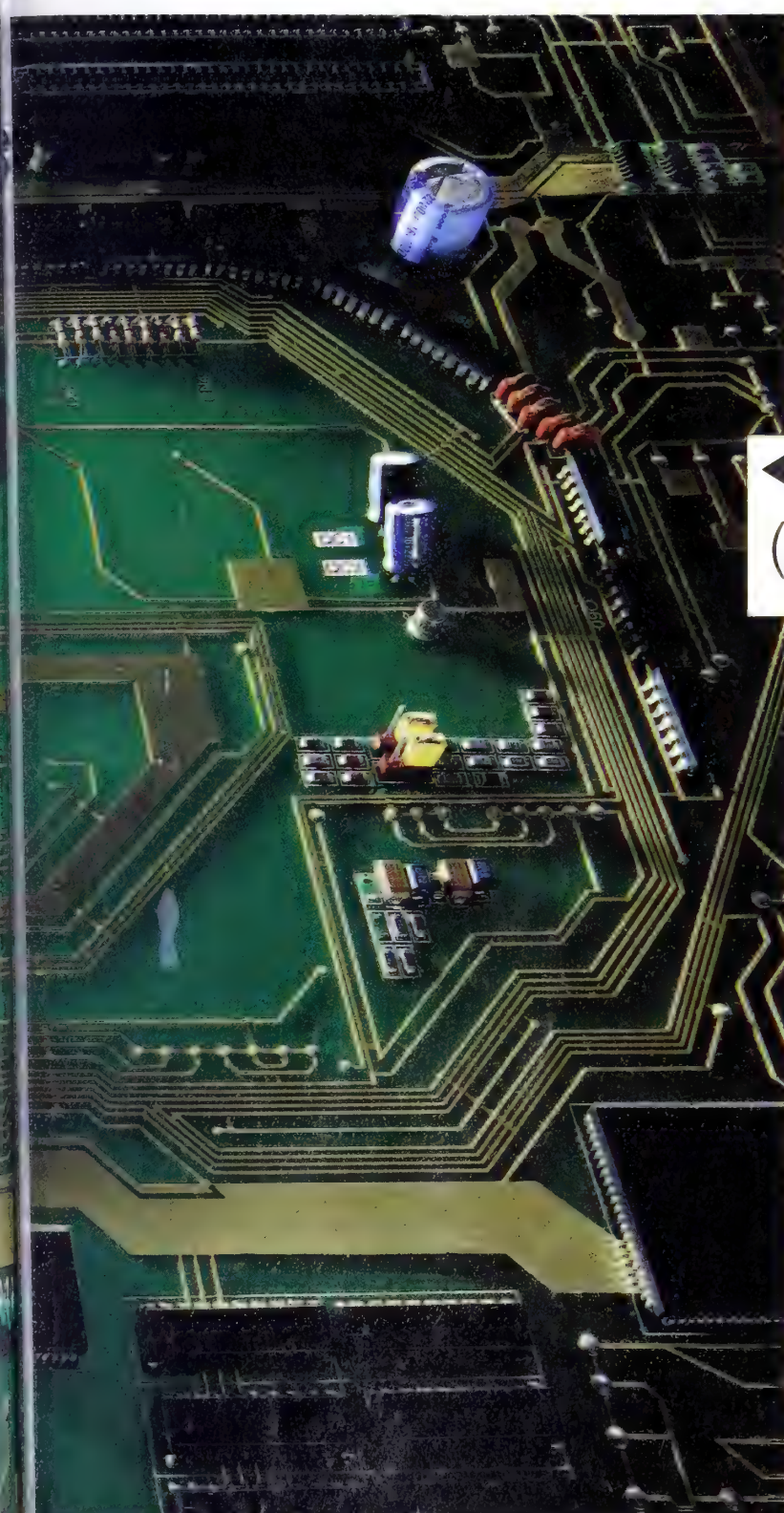


NTT: NIPPON TELEGRAPH AND TELEPHONE CORPORATION

In the information revolution



Otis Carrier Pratt & Whitney Sikorsky



a workforce should be **trained to win**

◀ (on circuits like this).

The information revolution has put market competition into overdrive. Now more than ever, the race belongs to the smartest. Read: skilled, schooled, possessing pedal-to-the-metal determination.

United Technologies fast-tracks its employees by investing over \$50 million each year in its Employee Scholar Program. Tuition, books, paid time off for people aiming at a degree. And a generous stock award on graduating.

As far as we're concerned, simply cruising through the information revolution is the same as standing still. So that leaves only one other course of action.

Be there first.



COMMENTARY

By Manjeet Kripalani

INDIA DIDN'T COUNT ON THIS AFTERSHOCK

Go nuclear—good things will happen. That was the strategy of Bharatiya Janata Party's newly installed coalition government in India. The decision to detonate a nuclear device was supposed to raise India's international stature and cow Pakistan and China. At home, the show of strength would give the BJP the popularity it needed to push through economic reforms.

So much for brilliant ideas. Three months into its term, the BJP government is already losing its credibility. It has failed to capitalize on its high popularity ratings after the nuclear tests, politically or economically. India's international image has suffered grave damage, and foreign investors are wary. At home, the party's unruly coalition partners are threatening the government's stability. And the momentum for reforms begun in 1991 has ground to a halt.

The list of damages is long. Many disillusioned Indians feel that superior Pakistani diplomacy since the tests has turned China into an open champion of Pakistan's position. President Clinton is even suggesting that China be party to India-Pakistan negotiations and play the role of policeman for Asia. That could create a genuine security risk for India, which sees China as a hegemonic power.

TARGET OF OPPORTUNITY. A week after the nuclear explosions, J. Jayalitha, a former actress and party leader who holds the key to some crucial seats in the coalition, took the first shot at the BJP. She resumed her threat to withdraw her party's support if the BJP did not dismiss the current government in her home state of Tamil Nadu, which is pressing corruption charges against her. Two other allies—from Bengal and Orissa—are pressing their narrow state interests, and they may also bolt from the coalition.

On the economic front, the BJP has

failed to exploit the postnuclear euphoria to do something substantive. Investors were hoping for an end to subsidies that suck up precious public funds. In its June 1 budget, the BJP actually proposed big cuts in fertilizer subsidies and raised fuel prices to market levels. But so weak is the coalition that when opposition parties protested, Finance Minister Yash-



want Sinha immediately backed down, reducing the subsidy cut by half and dropping the fuel hikes, saying only that they were mistakes.

The government's vacillating policies have sent the stock market plunging 30% since June 1. The rupee has depreciated 7% against the dollar. In the first week of June alone, \$130 million of foreign portfolio money left India. Bharat Shah, chief investment officer for Birla Capital International, says the blow to the economy is even greater given that Indian companies have finally begun to shake up management and restructure their businesses to meet global standards. Now, they cannot tap overseas investors for the capital and technology they need.

Meanwhile, executives wait anxiously for the start of the sanctions imposed by the U.S. after the tests.

The Group of Eight has said it will block aid-agency loans for India—a sign that U.S. diplomacy to get backing for additional sanctions is working. The World Bank deferred \$1 billion in new loans in the last month. Combined with the absence of a strong budget, the impact of sanctions could cut economic growth to 4%, far too weak to create needed jobs. And inflation, which had been tame at 4.5% annually, should jump to 10%.

DEATH WATCH? The BJP reacts with typical bravado, saying sanctions will only help India become “self-reliant.” But India has been trying to get self-reliant for 50 years without success. Rival parties are set to pounce. Congress Party political analyst Rajiv Desai says his party is waiting on the sidelines, watching as the BJP “discredits itself and falls upon its own contradictions.”

Most worrisome is the prospect of a BJP, desperate to retain popularity, making another aggressive move. One tactic sure to arouse popular passion: building a Hindu temple on the site of a destroyed mosque in Ayodhya, in north India. This is a stated goal of the party, even if such a move could trigger massive strife between

EARLY APPLAUSE

A Muslim leader congratulates Prime Minister A. B. Vajpayee after the nuclear test

India's Hindus and its 100 million Muslims. Although a BJP manifesto claims the party will abide by a court decision on the matter, one party spokesman says he has no doubt “the law will be on our side.” Already, masons are working on the columns and plinths of a grand white marble Hindu temple in a factory near Delhi. They are destined for Ayodhya. The political fallout of that event would be far worse than that of a nuclear test. India, it seems, is not learning from its mistakes.

Kripalani covers business and politics from Bombay.

USPS

"YOU MEAN
WE CAN GO *global*
AND THEY'LL
SWEAT THE *details?*"

Global Delivery Services™ can help you cut down on paperwork, speed packages through customs and give you the resources to reach customers in every country. Think of us as your partner to help compete in the global marketplace. Visit us at <http://www.uspsglobal.com> or call us at:

1-800-THE-USPS x2061



UNITED STATES
POSTAL SERVICE

We deliver.

How to get a 10,000-person organization acting like a small hungry band of entrepreneurs.

Technology has the ability to become the great equalizer.

Small businesses can seem like much larger ones. And perhaps more incredibly, large businesses can actually be as fast and nimble as much smaller ones.

Example: Your customer asks if you can ship next week instead of next month. Can you? Is it possible to book the extra cargo flights? Can your vendors comply with the new schedule? Does Sales need to adjust the price to cover the changes? Can your customer absorb the overages within your current contract? How did the Southeast Asia sub handle it when they had a similar situation last year?

You'll need to know all these things, right now.

A Digital_Nervous_System can help.



A Digital_Nervous_System relies on connected PCs and integrated software to make information flow more rich, rapid and accurate. This helps you act faster and close the gap between you and your customers, employees and vendors.

It's not something that comes in a box.

You build your own Digital_Nervous_System, over time, to meet the unique and changing needs of your company.

The foundation of any Digital_Nervous_System is software that acts alike, works alike, thinks alike. Microsoft® Windows®, Office and BackOffice® provide an ideal foundation for a Digital_Nervous_System because we built them from the ground up to work with each other, as well as with an industry's worth of applications.

With a Digital_Nervous_System, you act like a small business because all the critical decisions can be made as if you're all in the same room.

Yet you still have all the resources of a bigger business.

Everyone on the same page. Everyone hungry. Things just work.

Where do you want to go next?

Microsoft®

www.microsoft.com/digital_nervous_system/

EDITED BY JOHN TEMPLEMAN

CAN THIS MAN KEEP ULSTER ON THE ROAD TO PEACE?

A ruddy-faced man in a dark, pin-striped suit leads a small band of politicians through Bangor, a peaceful, mostly Protestant, seaside town in Northern Ireland. David Trimble, leader of the Ulster Unionist Party, is campaigning for the Northern Ireland Assembly elections on June 25. He assures worried voters that the Apr. 9 peace deal was a big win for those who want to keep the province British. "The republicans have been outmaneuvered," he tells an elderly couple in confidential tones.

Belfast's top republican, Sinn Fein President Gerry Adams, grabs most of the media attention. But the 53-year-old Trimble is Northern Ireland's pivotal figure. He confounded observers by gambling on the peace deal despite opposition from other leaders of his party. Then, he persuaded his mainly Protestant following to back the deal massively in a referendum. Now, Trimble is set to become First Minister of a provincial government that will take back local administration from London next year.

Trimble faces a delicate task in maintaining the momentum toward permanent peace. Given the long and bitter troubles in Northern Ireland, the political situation still could go badly awry. The government would be paralyzed if enough Protestant opponents of the peace deal win Assembly seats, for example. Besides, this summer's season of traditional sectarian marches could turn violent.

TOURIST BOOM. Moreover, after 25 years of direct rule from London, few politicians in Northern Ireland have any experience in government. Trimble, a former law professor, does not; only two candidates for the 108 Assembly seats do. Business worries about his sketchy economic program, although he argues that return of full democracy will spur investment. "Just getting a government up and running will be

the main achievement," he says. "Policy issues are secondary."

He may be right. Investment will come in, provided the peace process continues. A tourism boom is in the cards. And multinationals are drawn to the province's skilled and relatively cheap workforce.

Despite the strains that show in his face, Trimble keeps a sense of humor. Asked if he plays golf on the lush courses around Belfast, Trimble replies: "I have no healthy pursuit." But life in the province is no joke. Trimble says some of the residents of his own Portadown constituency are so angry

about the peace deal that it is not safe for him to visit parts of it.

Behind the scenes, though, Trimble is forging links that will help him wield power, notably with the Social Democratic & Labour Party (SDLP), the mainstream party of the Catholic minority. If the election goes as expected, Northern Ireland will be run by a coalition of his Ulster Unionists and the SDLP.

How Adams and Sinn Fein—like fourth-place finishers in the election—in is unclear. Trimble is adamant that republicans won't get any ministerial posts until they renounce violence

ambiguously. The Irish Republican Army is signaling that it is willing to destroy its arms. Still, for republicans, the problem remains that the peace deal falls far short of the unionists' Ireland they desired. "It is a historic defeat [for them]," says Paul Bew, professor of Irish history at Queen's University of Belfast.

But Trimble may succeed. Few analysts thought he could drag his party as far as he has toward peace. Despite the tough talk, he clearly has vision and political skill. It would be smart for Trimble, as leader of the winning side, to be as generous as his constituents will allow.

By Stanley Reed in Bangor, Northern Ireland



TRIMBLE: Set to become First Minister

GLOBAL WRAPUP

POLL SHOCK IN AUSTRALIA

► Australian politics are in turmoil after a spectacular June 13 debut by the xenophobic One Nation Party. Created just 14 months ago, it picked up 1 in 4 votes in elections for the Queensland state legislature. The party, led by former fish-and-chips-shop owner Pauline Hanson, wants to raise tariffs, give farmers loans at 2% interest, curb Asian immigration, and limit foreign ownership to 49% of local businesses.

Prime Minister John Howard's cen-

ter-right coalition is under siege. Business confidence and the dollar are at 7- and 12-year lows, respectively. Citibank economists warn that foreign investment could slump. Howard, who must call a general election by July, 1999, says he'll press ahead with tax reform and the sale of government shares in telecom giant Telstra Corp.

A PALESTINIAN TURNAROUND

► The Palestinian economy may grow 2% this year, the first rise since the Oslo peace agreements were signed in 1993, according to local economists.

The turnaround is mainly the result of a sharp increase, to more than 100,000, in the number of Palestinians working in Israel, the highest level in several years. The workers are frequently banished by Israel as punishment for terrorist acts.

The Clinton Administration is pressing Israel to let even more Palestinians work there and to make trade easier between Palestinian-controlled areas of the West Bank and the Gaza Strip. It also plans to convene another international conference to raise investment funds for the Palestinian economy.

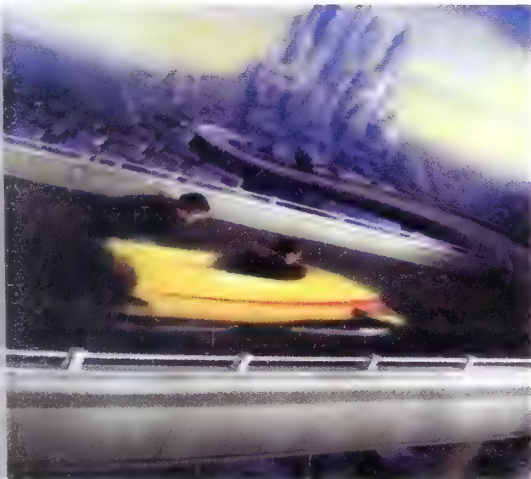


At the GTE WHOLESALE SERVICES DIVISION, our goal is to provide innovative communications solutions to businesses within the communications industry.

Whether it involves network management, network capacity, or resale services, we have an intimate understanding of the problems these companies face. And the experience and

expertise to solve them. We begin by establishing a relationship with customers based on open communication and an understanding of their business, which allows us to focus squarely on their needs. Then we look for creative ways to fill those needs – even if that means changing the way we do business.

“OUR INTERNET ACCESS SERVICE NEEDED MORE CAPACITY. AND WE NEEDED IT FAST.”



recruiting for this provider went from 1,000 ports a month to more than twelve times that. This far exceeded their expectations, enabling them to increase their business and coverage opportunities very rapidly.

If you're having a problem getting one of your communications ideas to work, call the Wholesale Services Division of GTE at 1-888-483-9594, or contact us on the Internet at www.gte.com/Wmkt.s. We're quick. We're cost-competitive. And best of all, we're flexible. You can count on us to deliver solutions that will ensure your success.

Some time ago, an ISP “backbone” provider faced a major dilemma: Customer demand for Internet capacity had outstripped their ability to provide it. They needed to build more and quickly. That's when they called in GTE Network Services Wholesale Division. Partnering closely with the ISP, we introduced them to a new networking configuration called CyberPOP. Instead of the traditional method of routing ISDN lines through multiple points, this system employs a trunkside connection that permits the equipment to be located in existing GTE switching centers, which in turn allows capacity to be added much more rapidly. Over the next two years, in fact, the rate at which we installed



PEOPLE
MOVING
IDEAS™

NETWORK
SERVICES

INTELLIGENCE BRIEFINGS

a special advertising series sponsored by CONSECO

The following article appears on S&P Personal Wealth, www.personalwealth.com, the interactive investment advisory service for the individual investor:

FINDING DOWN-TO-EARTH VALUES IN A SKY-HIGH MARKET

With stock market valuations reaching unheard-of levels, where in the mutual fund universe can you find reasonably priced investments? A good starting point, obviously enough: value funds. But with hundreds of funds to sort through, investors may need some help. Well, *S&P Personal Wealth* has found some funds

Fund/Inst. (PSVIX)/15.5; **Royce Total Return Fund** (RYTRX)/16.6; **Lindner/Ryback Small Cap Fund** (LDRSX)/17.2; **Muhlenkamp Fund** (MUHLX)/17.2; **MAS Funds:Value Portfolio/Inst.** (MPVLX)/17.3.

Low P/B Funds:

Some value investors prefer to use low price/book value ratios (P/Bs) as their criterion for determining cheapness, because they believe that earnings are more variable and subject to accounting vagaries than book value. What is book value? Essentially, it's the amount a company would be worth if you were to liquidate all its assets—the company's value on the accounting books. It is a more tangible measure of

h i g h l i g h t s f r o m S & P P e r s o n a l W e a l t h

that represent real value--those with the lowest *price/earnings* and *price/book* value ratios. These funds may be just the ticket for the value-conscious investor.

Low P/E Funds:

Price/earnings ratios, or P/Es, are simply the price of a stock divided by its earnings per share, and are a common measure of stock-price valuation. Over the past 10 years, the average P/E of the market has steadily risen, so what was once considered a high P/E is now considered average, and what was once average is now low. The overall P/E of a mutual fund is calculated using the weighted average of the P/E of each stock in the fund's portfolio.

We screened our database for the lowest-P/E domestic equity funds (only funds with at least three years of data were considered). There's no common thread that connects the funds other than a commitment to cheap stocks. The funds, ticker symbols, and P/E ratios (in ascending order) as of March 31, 1998: **Berwyn Fund** (BERWX)/14.2; **Pegasus Equity Income Fund/A** (PAINX)/15.3; **PIMCO Small Cap Value**

value than earnings, since book value tells you what you might actually get paid for a company in cold cash. Again, for funds, it is calculated by taking the weighted average of all the P/Bs of the stocks in a fund's portfolio.

Our list of the lowest-P/B funds has no overlap with our roster of lowest-P/E funds, which suggests that the managers of lowest-P/B funds are finding very different kinds of stocks than their P/E-oriented counterparts. Second, there is a decided bias toward very small caps. This would seem to strengthen the argument that small-caps represent the richest storehouse of value in the U.S. market today. The funds, ticker symbols and P/B ratios (in ascending order) as of March 31, 1998:

Franklin MicroCap Value (FRMCX)/1.0; **Franklin Balance Sheet Investment Fund** (FRBSX)/1.3; **Heartland Group:Value Plus** (HRVIX)/1.5; **Babson Shadow Stock Fund** (SHSTX)/1.7; **DFA Invest Group:US 6-10 Value Portfolio** (DFSVX)/1.9; **Franklin Value Fund/1** (FRVLX)/1.9; **DFA Invest Group:US Large Cap Value Portfolio** (DFLVX)/2.0; **Scudder Micro Cap Fund** (SCMCX)/2.1; **Evergreen Small Cap Equity Income/Y**(ESCEX)/2.2.



S&P

PERSONAL WEALTH
www.personalwealth.com

Look for Intelligence Briefings in Business Week next month. Additional market insight is available on S&P Personal Wealth at www.personalwealth.com.



LIFE INSURANCE.

HEALTH INSURANCE.

PLANS FOR THE FUTURE.

Life can take some pretty weird turns. So, do you prepare for the unexpected? Or do you prepare to live to be 100? With the Conseco companies, you can do both. We offer a wide range of insurance products that help you protect wealth, as well as annuities and mutual funds that give you the opportunity to create wealth. So, even if it sometimes feels like you don't have a plan, you always have a plan. Protect wealth. Create wealth. Our goal for life.

888-9-CONSECO

www.conseco.com

Services offered by Conseco Equity Sales, Inc., Carmel, IN 46032,
a subsidiary of Conseco, Inc. ©1998, Conseco, Inc.



CONSECO.

HOW MEDTRONIC SETS THE PACE

Its heart devices have spawned a host of new products

By the time Maurice Long put in an appearance before a Food & Drug Administration panel last year, he could joke about the wires running from his brain to a pace-maker-like device implanted in his chest. The contraption had ended the debilitating tremors that cut short his career as a financial-services executive and reduced his life to that of a hermit on his Hutchinson (Kan.) farm. Now, Long could keep his hands still. He could even play golf.

Just by sitting still, Long, 73, provided powerful testimony for the FDA panel. Last August, it approved Activa, a device made by Medtronic Inc., for widespread use in controlling tremors. Then, in April, Medtronic won European clearance to market the device to treat the shaking and other symptoms of Parkinson's disease. Today, the Minneapolis company is hoping that more testimonials will sway U.S. regulators and eventually open a worldwide market of 300,000 Parkinson's patients.

Stories like Long's are stirring. But for Medtronic, the stakes in the success of this new product are also dramatic. Best known as the leading supplier of heart pacemakers, Medtronic badly needs to crank out new applications of that maturing technology if it's going to extend an enviable record for earnings growth—a compounded annual rate of 25% over the past five years.

"EXCITING." Over the past two years, those gains have slowed sharply as Medtronic's pacemaker share has been eaten away by hard-charging rival Guidant Corp. William W. George, who joined Medtronic as chief operating officer in 1989 and became chief executive officer two years later, is counting on a host of state-of-the-art pacemaker products—along with Activa and other devices from its fast-growing, \$400 million neurology unit—to help push sales to \$6 billion in five years. Medtronic's revenues in the fiscal year ended Apr. 30 rose 7%, to \$2.6 billion; net income was up 12%, to \$594 million.

Anticipation of those breakthroughs have helped push Medtronic shares up 24% since January, to about 57. "What's exciting about this stock is its product innovation," says Jane R. Davenport, vice-president at Montag & Caldwell Inc., which holds a \$750 million position.

A close look at Activa's development shows how Medtronic has institutionalized the process of innovation. Since its founding in 1949, the company has nurtured and invested in ideas from a worldwide network of doctors. But as pacemaking competition heated up in the early 1990s, Medtronic intensified a search for new ways to use its core implantation and stimulation technologies. "We looked at diseases with no treatment or for which drugs didn't work," says George. But he also directed an overhaul of product-development efforts, tightening their focus and forcing shorter delivery times.

Now, proposals are judged on their medical value but also against tough fi-

Besides Parkinson's, the company

financial measures, including affordability. That's crucial in today's managed-care environment, says Medtronic President Arthur D. Collins Jr. "The onus is on the provider of the product to demonstrate it is not only good but cost-effective," he says. "There is a belief that technology is just adding cost to the system."

Medtronic's selection process can be brutal, but it offers avenues of appeal. For staffers who can't get over the initial hurdles, there's the Quest program, which frees up employee time to work on out-of-the-box ideas. Once approved, three-



PULSE OF LIFE: Medtronic's deep-brain stimulator

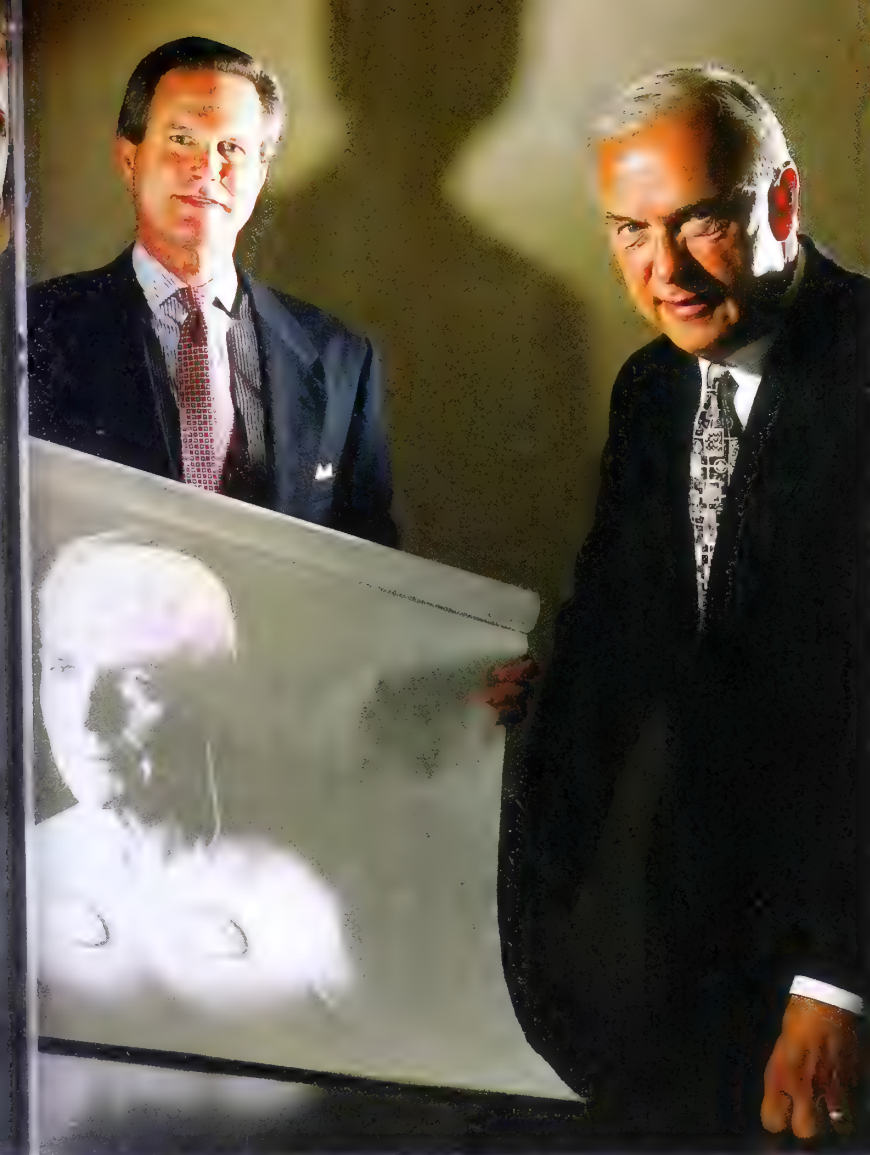
quarters of Quest ideas fail. However, the program can also salvage ideas such as Reveal, a heart-monitoring device that hit the market earlier this year and is nearly being short-circuited several times.

Winning projects emerge through a mixture of perseverance, serendipity, and back-channel support. In Activa's case, the product would not have survived without

the passion of an outsider.

Since the 1970s, neurosurgeons have been experimenting with electrical stimulation of the spinal cord to alleviate pain. But only drug therapy or bi-





get company backing, Benabid's tremor-control device didn't make the cut. Benabid was frustrated, but he continued to lobby. As more doctors picked up the procedure, operating time was cut in half and costs were greatly reduced. And the increased interest showed Medtronic that it may have underestimated the number of patients who might benefit.

Scott R. Ward, then head of the neurology group reviewing new ventures, pushed to have the device presented to the executive committee even though it hadn't made the initial cut. After viewing

BRAIN TRUST

Thompson (left) guided the Activa antitremor device's launch with help from Collins (center) and Meslow (right)

dramatic videos that showed patients entering surgery with uncontrollable shaking and emerging without a sign of tremors, the committee cleared a place on its funding list.

The new device had now crossed enough thresholds that it was given a team of seven Medtronic employees to guide it through product launch. Headed by Noreen Thompson, director of neurostimulation movement disorders, the team was charged with training doctors, educating patients, and arguing for insurance companies' approval. It was a tough sell. Activa, like all of Medtronic's neurology products, addresses a quality-of-life issue. And insurers won't pay up as readily as for life-saving pacemakers.

Marketing Alzheimer's, epilepsy, and Lou Gehrig's disease

urgery were being used to treat the tremors that accompany diseases such as Parkinson's. In 1985, French neurosurgeon Alim-Louis Benabid was experimenting with electrical stimulation of Parkinson's patient's brain to help determine which tissues he should cut away. He was stunned by what he saw. "I increased the frequency, the tremor stopped," he says. "I saw the patient's shaking hand stop." What Benabid had done was show that tremors could be manipulated through different electric frequency levels. In early 1987, working on his own at the University of Grenoble in France, he what was essentially a jerry-built Medtronic pacemaker, Benabid performed his first implant of what eventually became the Activa. The device was placed just under the skin in the patient's chest, with wires running to

the thalamic region of the brain. The results seemed promising—and came as evidence was growing that conventional drug therapy had diminishing benefits.

TRICKY ISSUES. But Benabid recalls that Medtronic's interest in funding his research was lukewarm at best. The market seemed minuscule—maybe 60,000 people worldwide. Among the doubters was John A. Meslow, the president of Medtronic's neurology unit. "Remember, it took seven hours of surgery, and who knew whether physicians would get operating time or any payers to pay," says Meslow, who later became a key supporter. "Could Benabid's results even be duplicated?" The ethical issues were tricky, too: To some, rooting around the brain and leaving wires there conjured up Frankenstein-like images.

When it came time to whittle 42 neurology prospects down to six that would

To build momentum, Thompson focused on the "thought leaders" among European and Canadian doctors—top-flight surgeons who were willing to perform the surgery, publish the results in professional journals, and otherwise spread the word. As FDA consideration neared, Thompson compiled a list of 200 neurosurgeons capable of implanting the device. Marketing, sales, and reimbursement experts began to visit them and conduct workshops. At every stop, they showed the breathtaking videos.

In early '97, the product was far enough along that Thompson's team began planning for the actual launch. Some officials suggested a gold-plated \$16,000 price tag. "It took about three minutes to convince them it wasn't going to work," laughs Barbara Veath, the company's reimbursement specialist. However, Medtronic wanted a strong margin

WORK THE WEB



LOvE AND DEAtH in Akron, Ohio.

The pharmaceutical sales rep is dead. Exhausted.

Dog meat. Lying on the bed, he thinks about his day. His flight was delayed two hours. He went into the club lounge and connected to ¹(the company intranet to review shipping status on pending inventory) via the Web. He ²(e-mailed) his customers to inform them their deliveries would arrive early. He lugged his carry-on to the gate. He wedged himself into a coach seat. He arrived at his sales call just in time, only to find his client was running an hour late. He tweaked his presentation, checking his competitors' Web sites, and ³(incorporated key points into his pitch). He made the presentation. He went to the hotel and the smiling clerk gave him a smoking room with twin beds instead of the non-smoking king he had reserved. He turned on a rerun of *Love, American Style*. He connected to the ⁴(contact management system), updated his customer file and sent a call report to the global sales team. He connected to the company benefits intranet and ⁵(calculated the balance in his 401k plan). It was up 4.5%. He falls asleep and sleeps soundly until his next wake-up call. At 5:30 a.m.

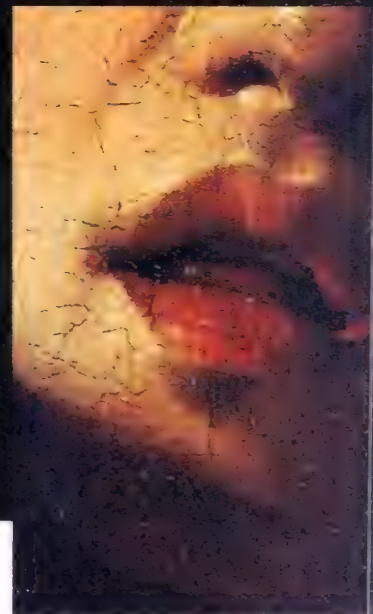
THE ⁶(BEST PARTS) OF HIS DAY WERE MADE POSSIBLE BY LOTUS.

¹Lotus Domino™ Web Application Server with IBM DB2™ UDB back-end. ²Lotus Notes™ mobile messaging. ³Notes replication. ⁴Domino-based Contact Management application developed by Lotus Business Partner. ⁵Lotus eSuite™ spreadsheet applet. ⁶www.lotus.com/worktheweb.



An IBM Company

A Renaissance
Person wants a
hotel that
doesn't just give
lip service to
guest
satisfaction.



At Renaissance, we don't just talk about personalized attention, we graciously provide it every day. Perhaps that's why we were ranked the "Highest Upscale" Hotel Chain in Guest Satisfaction" in a 1998 Frequent Flyer

Magazine/J.D. Power and Associates study.** You see, we believe catering to our guests is the essence of Renaissance Hospitality.™ It means if

you make a request, it is attended to. No matter what. And at every Renaissance hotel, you'll enjoy superb dining, comfortable accommodations

and a warm, inviting atmosphere. There are over 70 Renaissance Hotels & Resorts in

23 countries worldwide where you can experience a *Renaissance*. You'll find we offer

a variety of services—except, of course—lip service. Call 1-800-HOTELS-1 or your travel agent, or visit us at renaissancehotels.com.

It's time for a Renaissance.



RENAISSANCE
HOTELS AND RESORTS

*Upscale excludes luxury, mid-price, economy and budget chains. **Source: Frequent Flyer Magazine/J.D. Power and Associates 1998 study. Renaissance was ranked Highest Guest Satisfaction. Study conducted by frequent business travelers at upscale hotels and is based on 8,067 individual evaluations. 11 upscale hotel chains were ranked in the study. ©1998 Renaissance Hotels International

Innovation Machine

Medtronic has cranked out a stream of new electrical stimulators and implant devices based on its old heart pacemaker technology.

PRODUCT	CONDITION	APPROVAL STATUS	WORLD MARKET BY 2002
ACTIVA	Tremors, Parkinson's symptoms	Europe, all symptoms; U.S., more limited	\$150 million to \$200 million
GEM DR	Fast and slow heart rate	Europe; pending in U.S.	\$225 million to \$300 million
INSYNC	Congestive heart failure	Europe, expected 1998; U.S., expected 2000	\$125 million to \$175 million
SYNCHROMED	Lou Gehrig's disease, Parkinson's symptoms	Clinical trials	\$50 million to \$100 million

DATA: MEDTRONIC, COWEN & CO.

begin to recoup its multimillion-dollar vestment. In the end, the device was iced at about \$10,000. The procedure at hospitals another \$10,000 or so for surgery time, room costs, and other expenses. Of the total, Medicare or private insurance typically picks up about \$5,000; the rest is absorbed by hospitals or patients.

But the FDA had yet to give its nod. Investigators wanted to know how patients would fare years after they had received the implants. Medtronic pointed to Benabín's early patients in France who were doing fine after seven or eight years. But the patient videos, which had been so successful at winning internal Medtronic support and doctors' interest, failed to wow the FDA. Among those who were unimpressed was Dr. Daniel A. Spyker, a senior FDA official with medical device responsibility. "In due time," says Dr. Spyker, "but everybody else has to bring data."

IL-BITER. In August, 1996, four months after Medtronic submitted its application for approval, a long list of objections came back from the FDA. The firm that had prepared the application tried to rework and reanalyze reams of data. In March, 1997, as the final hearing took place in Washington, Thompson gathered with about 20 colleagues at Medtronic headquarters to listen via audio hookup. By this point, the team had spent more than two years shepherding the device. "We were winging our nails, cheering, cursing," Thompson recalls.

The outcome, announced preliminarily after the hearing, was a partial win. Activa was approved for tremor applications—but only for implanting in one lobe of the brain at a time. Before it could gain approval for both sides and

for implanting deeper in the brain to control other Parkinson's symptoms, further clinical studies would be necessary.

There was no time for celebration or disappointment. Medtronic officials now faced tedious, word-by-word negotiating with the FDA on labels and manuals for doctors and patients—a five-month-long process. Then came the actual rollout. In a fashion typical of the understated culture of the Upper Midwest, the neuro team didn't celebrate until the company's annual holiday party. Patients like those in the videos were invited to give live testimonials. There wasn't a dry eye in the house, says Paul Citron, vice-president for science and technology.

Medtronic hopes to get U.S. approval of Activa for Parkinson's symptoms in 12 to 36 months and is searching for a wide range of new applications. Tops on Medtronic's hit list: Alzheimer's, epilepsy, Lou Gehrig's disease, and dystonia, a debilitating contraction of the muscles that affects young children. Some see a future where Medtronic's devices will have sensors in the brain that detect the onset of seizures and also trigger the delivery of drugs to disrupt them.

Medtronic CEO George craves the growth these innovations promise but recognizes the price it may exact. "Size and creativity are inversely related," he says. "We can't achieve our growth objectives unless we stay nimble and break ourselves into teams. Everyone—sales, manufacturing, engineers, me—we all need to be out among doctors and in the operating rooms, staying in touch. It's a lot easier when you're small." Maintaining that edge will be critical if Medtronic is to satisfy patients such as Maurice Long—as well as its investors.

By Richard A. Melcher
in Minneapolis



Marriott REWARDS

Now earn points at participating Renaissance Hotels & Resorts.

With Marriott Rewards, it's never been easier to earn free vacations.

You can earn points at eight different hotel brands and over 1,300 locations worldwide. Call 1-800-249-0800 to join.

Renaissance Locations

North America: Arizona: Scottsdale • California: Indian Wells, Long Beach, Los Angeles, San Francisco (2) • Colorado: Denver • Washington, D.C. (2) • Florida: Orlando (2), St. Petersburg • Georgia: Atlanta (3), Lake Lanier • Hawaii: Maui • Illinois: Chicago, Oak Brook, Springfield • Maryland: Baltimore • Massachusetts: Boston • Missouri: St. Louis • New York: New York, White Plains • Ohio: Cleveland • Tennessee: Nashville • Texas: Austin, Dallas (2), Houston • Washington: Seattle • Canada: British Columbia: Vancouver • Ontario: Niagara Falls • South America: Brazil: São Paulo • Caribbean: Dominican Republic: Santo Domingo • Grenada: St. George's • Jamaica: Ocho Rios • U.S. Virgin Islands: St. Thomas • Europe: Austria: Vienna (2), Salzburg • Czech Republic: Prague • France: Paris • Germany: Chemnitz, Düsseldorf, Hamburg, Heidelberg, Karlsruhe, Cologne, Leipzig, Munich • Russia: Moscow • Switzerland: Zurich • The Netherlands: Amsterdam • United Kingdom: London • Turkey: Antalya, Istanbul • Asia-Pacific: China: Hong Kong (2) • India: Goa • Japan: Gifu, Naruto, Okinawa, Sapporo, Tokyo • Korea: Seoul • Malaysia: Kuala Lumpur (2), Melaka, Sandakan • Myanmar: Yangon • Philippines: Manila • United Arab Emirates: Dubai • Australia: Sydney • Middle East: Egypt: Alexandria • Israel: Jerusalem

Call 1-800-HOTELS-1
or visit us at renaissancehotels.com.



It's time for a Renaissance.

JUST THINK. YOU AND DAVID DUVAL,
STRIDING TRIUMPHANTLY FROM
THE FABLED 17TH AT SAWGRASS.



No, it's not a fantasy, it's a sweepstakes.

For the past several seasons, David Duval has been one of the most dominant players in golf. And now Charles Schwab gives you a chance to tee it up with him. If your name is drawn in a random drawing in October, you'll win airfare and a three-night hotel stay for two, dinner at the Marriott at Sawgrass and \$500 spending money. And you'll share a round with David Duval at the TPC at Sawgrass in Ponte Vedra Beach, FL, on the legendary Stadium Course. Why not enter today?

Charles Schwab

The Official Investment Firm
of the PGA TOUR



**WIN A ROUND AT THE TPC AT SAWGRASS WITH
PGA TOUR PROFESSIONAL DAVID DUVAL.**

ENTER TODAY AT WWW.PGATOUR.COM.

Or hand print on a plain piece of 3" x 5" paper your complete name,
address, zip code, plus daytime telephone number (optional).

Mail to: Charles Schwab PGA TOUR Sweepstakes, P.O. Box 5226, Blair, NE 68009-5310

Entries must be received by 9/30/98.

No purchase necessary. Open to US residents, 18 years or older. Void in Florida and where, or to persons, prohibited. For Official Rules, by which entrants are bound, send self-addressed stamped envelope to: Rules, P.O. Box 5310, Blair, NE 68009-5310. Sweepstakes ends 8/31/98.

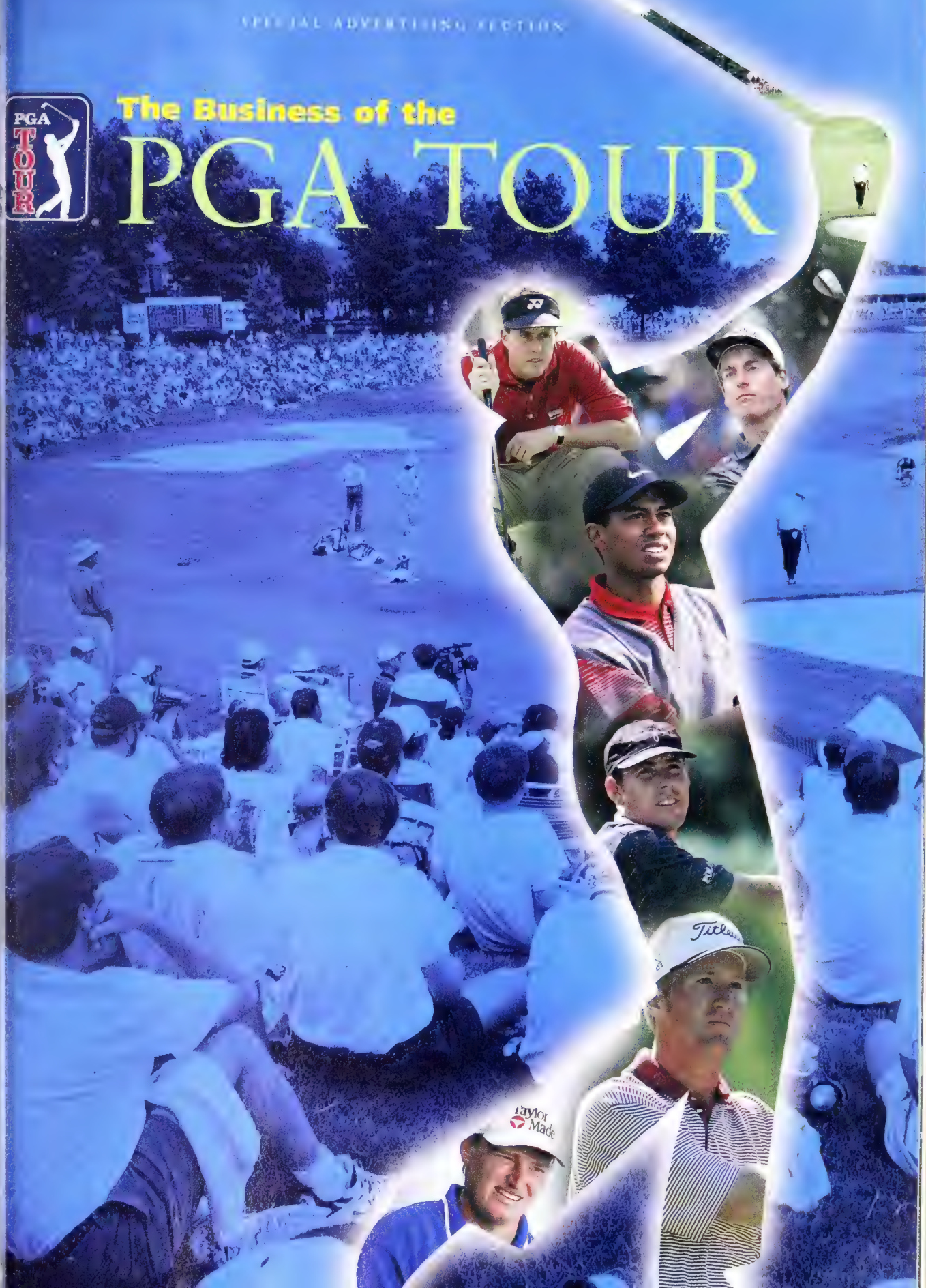
Charles Schwab & Co., Inc. All rights reserved. Member SIPC. NYSE: 6698, 2582

SPECIAL ADVERTISING SECTION



The Business of the

PGA TOUR



These Guys Are Good

BY MELANIE HAUSER

You've heard the heart beating faster and faster as Justin Leonard drops the winning putt. You've seen the race down the stretch where Davis Love III comes from behind against an all-star cast—everyone from Vijay Singh to David Duval to Jesper Parnevik—in rapid-fire succession.



from left to right: "Three Amigos" Blaine McCallister, Jim Nantz, Fred Couples

Just in time for the NBA Finals came a commercial featuring Phil Mickelson, master of the lob wedge, taking a divot from the basketball court as he flipped the ball to San Antonio Spurs center David Robinson for an alley oop. A yet-to-be-cast baseball spot is just around the corner.

And, there's the original, which got all this started: Raymond Floyd wedging it between the uprights to win the game as a stunned Dan Marino stands by, shaking his head and mumbling the PGA TOUR's new slogan: These Guys Are Good.

Yes, they are. And not just on the golf course.

The point of the TOUR's current commercial campaign and its "These Guys Are Good" theme is there's more to its players and the TOUR than great recovery shots, heart-racing putts, huge crowds and big winner's checks.

"Our new creative campaign has multiple meanings," said Bob Combs, the TOUR's senior vice president for public relations and communications. "'These Guys Are Good' highlights the competitiveness of PGA TOUR players and the drama of competition at the highest level. At the same time, these athletes focus in a very significant way on charity. They are focused on leaving behind important charitable contributions in their hometowns and in the communities in which PGA TOUR events are played."

The campaign is a step up and away from the TOUR's old "Anything's Possible" campaign, which was focused just on charities,

not the players and tournament drama. The current series of commercials, which has played during football and basketball games, crosses over to entice football and basketball fans to tune in as well as letting the golf faithful get a look inside the top players of the game.

"These Guys Are Good" had its debut at the Mercedes Championships, which means most early-season tournaments weren't really able to incorporate it into their already-in-place marketing campaigns. But the idea is to eventually blend that thought with local efforts to help create more interest that, in turn, will help raise the charitable donation TOUR-wide.

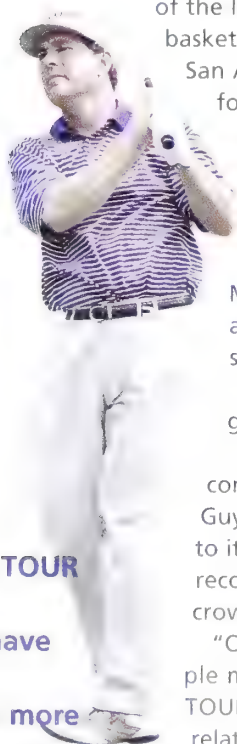
TOUR events raised a collective record \$33,995,646 in 1997, marking the second year the group has surpassed the \$30-million mark. Overall, TOUR events have donated more than \$350 million since the first donation was made back in 1938.

And the charitable theme doesn't stop when a TOUR player leaves the course. On any given Monday, a TOUR player somewhere is hosting an event for a hometown charity or one close to his heart. Andrew Magee and Gary McCord host the annual Santa Claus Open in Phoenix, Tom Watson has an annual pro-am in Kansas City, Jay Haas is a congenial host in South Carolina, John Daly hosts a "Make-A-Wish" celebrity golf tournament in Memphis and Fred Couples hosts pro-ams in his hometown of Seattle and in Houston, where he teams with Blaine McCallister and CBS Sports' Jim Nantz.

AND THAT'S JUST A START.

Some of the game's top players believe it is in giving that you truly receive, so they did just that. When Payne Stewart won the 1987 Bay Hill Classic, he donated his \$108,000 winner's check to Florida Hospital Circle of Friends House in honor of his late father. Scott Hoch followed the lead in 1991 when \$100,000 of his winner's check in Las Vegas went to the Arnold Palmer Hospital for Women and Children in Orlando. In 1965, Gary Player won the U.S. Open and donated his \$26,000 check to the American Cancer Society and United States Golf Association's junior golf program.

Overall, TOUR events have donated more than \$350 million since the first donation was made in 1938



**(why accept
the charges?)**

Most calling card calls slap you with up
to 99¢ in hidden charges on each call.



Introducing the AT&T One Rate Calling Card Plan.
One low rate. No hidden charges.

	AT&T One Rate Calling Card Plan	MCI One	Sprint Sense	Premiere WORLDLINK
Service Charge per call	0¢	99¢	30¢	25¢
Cost per minute	23¢	30¢	30¢	21¢

Rate in effect as of 12/1/97

AT&T just made calling card calls simple with the AT&T One Rate Calling Card Plan. You get one low rate a minute anytime, anywhere in the U.S. on all your long distance AT&T Calling Card calls when you dial 1 800 CALL ATT. No gimmicks. No hidden charges. Just a \$1.00 monthly fee. Call to sign up and find out how you can start saving now.

Call 1 800 878-3288

It's all within your reach.



SENIOR PGA TOUR stars Palmer and Jim Colbert were diagnosed with prostate cancer in 1997, underwent surgery and are back on the golf course playing the game they love. They're also spearheading "SENIOR PGA TOUR for the Cure," which offers fans a chance to pledge money for each birdie their favorite players make during the 1998 season. Tom Kite and Bob Murphy are involved in Bayer's Strokes Against Stroke program, which is an annual awareness and fundraising program to help fight stroke, led by Bayer Aspirin in cooperation with the PGA TOUR and the American Heart Association.

And it's not just TOUR players who are "good." The tournament executive directors can take bows for their efforts, too. Programs like the Charity Partners plan at the Shell Houston Open and Birdies for Charity at the Greater Milwaukee Open and Quad City Classic ensure those tournaments will earn record amounts each year for their local charities.

The World Golf Championship NEC Invitational tournament director Tom Strong was the Milwaukee tournament director when he began the Birdies program, in which sponsors commit to pay "X" amount for every birdie made during the GMO. Kym Hougham put a similar program in place at Quad City, updated it each year and, in five years, it has generated \$1.1 million. He projects the 1998 tournament will generate a record \$300,000 alone.

"We like to think we perfected Birdies for Charity," Hougham said. "The program has

gotten so big, we've hired a new person just to run that program."

In addition to getting per-birdie pledges, they also, among other things, give an extra percentage to companies that are on the Corporate Birdies list.

"We, as a tournament, wanted to try and get the most charities possible involved," said Hougham.

The more the merrier in Houston, too, where its Charity Partners plan assured the 1998 event of \$1.35 million in charity dollars before the tournament began. In the program, Partners sponsorships are \$50,000, and \$25,000 of that goes directly to the charity of that company's choice.

The program started with 16 Partners in 1994 and now has 54.

It also enabled the Shell-sponsored tournament to move from the middle-of-the-pack in donations to the upper echelon. The event ranked second in donations last year with \$2.1 million and plans to do better in 1998. The GTE Byron Nelson Classic led the way among TOUR events with \$4.3 million raised for charity.

"For us, it's knowing we're going to give something back to our future; kids are the parents and leaders of tomorrow," tournament director Eric Fredricksen said.

In addition, TOUR and SENIOR TOUR events also draft players and compete against each other in the MasterCard Charity Team Competition, which distributes more funds to tournament charities at the close of each season.

Players and their wives also give of their time to help tournament charities in each city, whether it's visiting hospitals or giving clinics or volunteering to build houses in lower income areas.

So the next time you see Leonard or Love or Mickelson or Floyd doing something spectacular on television, remember, "These Guys Are Good." And not just on the course. ■



from left to right:
Andrew Magee, Gary McC...



from left to right: Bob Murphy, Tom Kite

The tournament
executive direc
tors can take
bows for their
efforts, too

There's more to the future than technology.



Canon believes that technology's purpose—to help people lead more fulfilling lives—is rendered meaningless when the human factor is ignored. Which is why Canon devotes considerable resources to the betterment of people, especially the young, as well as the preservation of the environment. This support is found in the funding of children's sports programs, assistance to the needy, and environmental initiatives such as the Canon Clean Earth campaign, a world-wide recycling and environmental conservation program. Another testament to Canon's commitment is the Canon Greater Hartford Open. Through the years, it has become one of the largest charitable contributors on the PGA TOUR.

Canon's concern for the earth and the people who live on it is as genuine as its efforts to expand the boundaries of technology. In giving consideration to all, the future is brighter for you, for Canon, and for a small child learning a game hundreds of years old.

To learn more about Canon's quest for a better environment, visit us at www.usa.canon.com



The Canon Greater Hartford Open, June 19-July 5, 1998, TPC at River Highlands.
See the Canon logo on ESPN, Thurs. July 2, 1-3 P.M. & Fri., July 3, 11 A.M. - 1 P.M.
and on CBS, Sat. & Sun., July 4 & 5, 8-11 P.M.
For more information, call (800) 345-6190.

Canon

© 1998 Canon U.S.A., Inc.

Official Sponsors

BRING MORE TO THE

PGA TOUR

BY SCOTT GUMMER

"Official sponsor" is an often misused term. Sometimes there is a perception that the title goes to whoever writes the fattest check. But, on the PGA TOUR, official sponsors bring a lot more to the TOUR than their checkbooks.

"The PGA TOUR is, first and foremost, a membership organization," says Mike Stevens, vice president of corporate marketing for the PGA TOUR. "Adding benefits



for our members is a high priority, and some of our most important membership benefits come from our corporate partners." Charles Schwab & Co. and Lucent Technologies are just two examples of companies that, working in conjunction with the TOUR, have created added-value sponsorship programs.

INVESTMENT & FINANCIAL PLANNING

For the past two years, Charles Schwab & Co. has served as the "Official Investment Firm of the PGA TOUR and the SENIOR PGA TOUR." Charles Schwab sponsors the electronic scoreboards at PGA TOUR events and promotes its relationship with the TOUR in a national television advertising campaign showcasing selected players, their investment needs and their Schwab solutions.

In addition, Schwab provides retirement plan services to PGA TOUR Player Retirement Plans and to the PGA TOUR Employee Savings Plan. Schwab's advanced technology allows participants access to plan information 24 hours a day via the SchwabPlan toll-free 800 number or website, Schwab.com.

Charles Schwab & Co. also provides investment and financial planning services above and beyond the retirement and savings plans to PGA TOUR players and employees. Schwab representatives are on-site at a number of PGA TOUR and SENIOR TOUR events to assist the players and conduct educational seminars on investment, retirement and estate planning for the golfers.

Players who are pondering the relative benefits of converting to a Roth IRA or are skittish about the performance of tech stocks in a bull market can get some answers and give themselves one less thing to think about before teeing it up on TOUR.

TELECOMMUNICATIONS TECHNOLOGIES

In 1997, Lucent Technologies signed on as the "Official Communications Systems Company of the PGA TOUR and SENIOR PGA TOUR." When the TOUR needed to expand its telecommunications systems to accommodate the tremendous growth of the organization, Lucent provided state-of-the-art equipment allowing increased call capacity and the linking of several remote offices. Lucent also supports numerous TOUR events with critical communications equipment, including video conferencing and voice messaging services.

The PGA TOUR
is, first and
foremost,
a membership
organization

Two of Lucent's most valuable technologies available to the TOUR have been the Partner Communication System and MultiPoint Conferencing Unit. At this year's SENIOR TOUR Liberty Mutual Legends of Golf in Amelia Island, FL, Lucent's Partner Communication System allowed the tournament staff to pre-record event information for the public. Fans could call in to obtain daily pairings, weather, ticket and parking information and directions to the course.

Lucent's videoconference capabilities were showcased last year when the PGA TOURS International Federation (comprised of the world's five major golf tours—the PGA TOUR, PGA European Tour, South African PGA Tour, PGA Tour of Australasia and PGA Tour of Japan) announced the creation of the World Golf Championships. Using Lucent's award-winning MultiPoint Conferencing Unit, Federation officials in Spain and Houston, TX were able to see, hear and interact with one another at a cost dramatically less than a satellite hook-up.

TRAVEL BENEFITS

Special travel services are another benefit PGA TOUR members enjoy from official sponsors. Delta Air Lines offers players a percentage off their published fares, plus

special options for one-way flights, which is key for players constantly flying from one tournament to the next. Hyatt Hotels & Resorts and Hilton Hotels afford players special room rates and enrollment in their preferred guest programs. And every winner of a PGA TOUR and SENIOR TOUR event receives a free week rental certificate from National Car Rental.

MORE THAN MEETS THE EYE

Fans who go to tournaments or tune them in on television usually see golfers playing the world's greatest courses. There is no question life on the PGA TOUR looks glamorous, but there is no denying it is not easy. Unlike most other professional sports, there are no guaranteed contracts on TOUR; all the players are independent contractors. There is no real off-season, save for the month of December. And the travel is downright grueling.

Every week the PGA TOUR picks up and moves to another town, usually in another state and often across the country. But thanks to the commitment and coordinated efforts of the TOUR and its corporate marketing partners, the players can more freely focus on their game and the fans get to enjoy the show. ■

©2001 PGA TOUR



The World Golf Village

BY CHRIS SMITH

PHOTOGRAPHY BY STAN BADZ, PGA TOUR

A memorable weekend of World Golf Village festivities culminated with a rare gathering of golf's great champions and contributors to celebrate the opening of the World Golf Hall of Fame.

Twenty-three members of the Ladies Professional Golf Association Hall of Fame and former Hall of Fame in Pinehurst, NC came to Northeast Florida May 18 to embrace their new home of honor and welcome Johnny Miller and England's Nick Faldo into the fold as the first inductees under a new voting system.

"That is an awesome group of men and women there," observed Faldo, the winner of three Masters Tournaments and three British Opens. "I think I was more in awe than at Augusta. I mean, Augusta is great—that's an exclusive bunch of guys. But this one tops it."

Miller waited nearly one-and-one-half years for his induction following his 1996 election into the new PGA TOUR Hall of Fame. But seeing the ceremony unfold with the sparkling new 75,000-square-foot World Golf Hall of Fame building as a backdrop and more than 2,000 in attendance, including his family and golf dignitaries from throughout the world, made the wait worthwhile.

"It is a dream of all professional golfers to have successful careers, then have your name mentioned alongside the great players of the past," Miller said. "This is the ultimate honor in golf. It was a thrill to be part of it all and to share the experience with family and friends."

Faldo and Spain's Seve Ballesteros, who will be inducted next March, were elected through the new International Ballot in 1997.



Nick Faldo



Johnny Miller

The afternoon festivities included the reinduction of the 71 players and contributors honored at Pinehurst and by the LPGA.

"This is the greatest accolade a golfer can receive for his achievements and, obviously, I am extremely excited and honored to be included in the World Golf Hall of Fame," said Faldo, who with Miller was welcomed into the fraternity by the Hall of Famers during a special reception in the World Golf Hall of Fame tower.

From an historical perspective, it was appropriate that the opening of golf's newest and most inclusive destination is in the neighborhood of St. Augustine, FL, the nation's oldest city.

It marked the coming together of golfing generations, a who's who of greatness. It also marked the coming together of golf organizations to honor the game's rich history and great stars under one roof.

In fact, this marks the first time the LPGA Hall of Fame actually has a permanent home.

"I am very excited," said Pat Bradley, who was inducted into the LPGA Hall of Fame in 1991. "For the last five or six years, my stuff has been in a box in the corner, off to the side of a room. It will be a final chapter in my career, getting into the Hall of Fame. For many years to come, it will be a place where people can gather and see it long into the future."

"It is great that all of the golf organizations have come together to build the World Golf Hall of Fame," added Betsy King, who qualified for the LPGA Hall of Fame in 1991. "It is nice to finally have a place to see the LPGA Hall of Fame and members of the PGA TOUR Hall of Fame." ■

It marked the
coming together
of golfing
generations,
a "Who's Who
of Greatness"

You Have Our Attention.

No matter which corner of the world you're in.

ROYAL &

SUNALLIANCE

990 Royal & Sunalliance Insurance Company, Ltd. www.royalsunalliance.com
Member of the Worldwide Insurance Group, Inc.

Providing commercial property and casualty,
personal and specialty insurance coverages.

The Global Golf Story

BY JEFF WILLIAMS



Ernie Els

Professional golf is going global, and there seems no limit to its horizon

The Presidents Cup, the competition between PGA TOUR players and the world's best non-European players, will be held in Melbourne, Australia this December. The newly created World Golf Championships, events designed to bring the world's best players together, begin their first season in 1999, with a fourth event beginning in the year 2000.

The PGA TOUR has led the way in the development of international championship golf, bringing together the PGA Tour of Australasia, the PGA Tour of Japan, the PGA European Tour and the Southern Africa PGA Tour into a worldwide organization known as the PGA Tours International

Federation, the body that will oversee the World Golf Championships.

"We have created a combination of venues and formats that magnifies golf's international status," says PGA TOUR Commissioner Tim Finchem. "These championships transcend national boundaries, bringing players from all corners of the world together, encompassing the global marketplace with global sponsors."

Andersen Consulting, NEC and American Express have signed on as umbrella sponsors for a four-year term. Andersen Consulting will sponsor the World Golf Championship Andersen Consulting Match Play Championship, a match play event among the world's top 64 players, at La Costa Resort in Carlsbad, CA next February.

NEC will sponsor the World Golf Championships NEC Invitational, an event featuring the last-named Ryder Cup and Presidents Cup team members, in Akron, OH in August of next year. American Express will be the sponsor of the World Golf Championships American Express Championship, a stroke-play event among the world's top players, to be held in November 1999 at Valderrama, Spain.

Golf in the modern era always has had an international flavor. The Ryder Cup Matches pit a 12-man U.S. team against their European counterparts. The Presidents Cup began in 1994 and is held every two years.

Non-European players, like Nick Price of Zimbabwe, Ernie Els of South Africa and Greg Norman of Australia, wanted to share in the thrill of international competition. The first two Presidents Cup matches were held in the United States and were won by the American team. This year the matches will be held at the legendary Royal Melbourne Golf Club, where Jack Nicklaus will captain the American team while Australian Peter Thomson captains the International Team.

"Being able to compete as a team gives you a sensation you don't get any other way," says Price. "The Presidents Cup gives those of us who cannot qualify for the Ryder Cup a taste of that competition. It's terrific."

Just as The Presidents Cup is bringing the best international competition to the rest of the world, so will the World Golf Championships, which add a fourth event in 2000 when the World Cup of Golf, a long-standing two-man team competition, becomes part of the WGC series. The plan calls for about half the WGC events to be played outside the United States, to capitali-



from left to right:
Ken Schofield, Executive
Director of PGA European
Tour, and PGA TOUR
Commissioner Tim Finchem

on the expanding interest in the game in the Pacific Rim, Australia, Europe and Southern Africa.

CORPORATE SPONSORSHIP

This globalization of the game, enhanced by worldwide television coverage, is a big reason that Andersen Consulting, NEC and American Express have signed on as sponsors.

"American Express is a global corporation, a global brand," says Nancy Smith, vice president of media and sponsorship for American Express. "We were looking for something that would have marquee value, something of high accomplishment and something that would have a global feel to it. Golf is a very serious passion for a good percentage of our customers. It has the dual perspective of being a sport that is viewed and one that is participated in. The World Golf Championship series gives us not only the benefit of sponsoring one event, but of participating in all the others."

NEC was already sponsoring the long-standing World Series of Golf in Akron, OH and was happy with its relationship. Then the PGA TOUR asked NEC if it wanted to

become a part of the WGC series. "We felt the World Golf Championships would elevate the event considerably," says Jim Carpenter, senior vice president of NEC-USA.

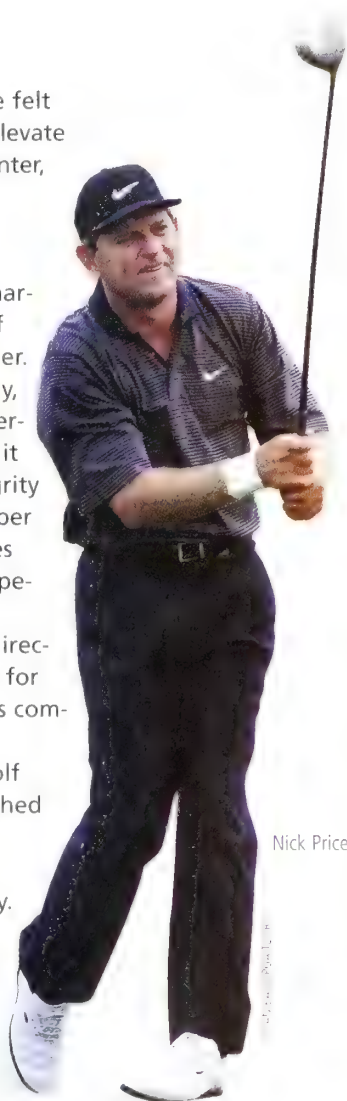
A NATURAL FIT

The WGC also fit nicely into NEC's marketing strategy. "It's a globalization of our marketing package," says Carpenter. "It expands our game plan horizontally, and the size of the event expands it vertically. We think golf is unique in that it has the highest level of personal integrity while appealing to an enormous number of people. It is widely played at all ages and skill levels. It's a good fit for us, especially as a global medium."

Jim Murphy, worldwide managing director of marketing and communications for Andersen Consulting, had overseen his company's sponsorship of the Andersen Consulting World Championship of Golf for two seasons when he was approached about his event becoming part of the WGC. "We were pleased to pioneer a global match play event," says Murphy. "Now that it's a fully sanctioned event [official prize money on every tour], it takes on greater stature. We were looking for a global event to give us worldwide exposure. The Olympics were too expensive. Soccer doesn't have the demographics. This fit with our marketing mix right now... And we believe in the concept of global golf in the pure sense. We want to see the best players in the world brought together more frequently."

For American Express, the WGC gives an international platform to one very important spokesperson, Tiger Woods. There's no doubt that Woods' accomplishments have resonated around the world, bringing more fans to the television sets and more players to the game. "The World Golf Championship gives us an opportunity to synergize with Tiger Woods," says Smith. "He's got global appeal."

In that sense, Tiger Woods symbolizes the new, evolutionary game of golf, a game that is circumnavigating the world at record speed and capturing the hearts and minds of new golf fans everywhere. ■



Nick Price



Costa Resort & Spa, site of the World Golf Championships Andersen Consulting Match Play Championship.

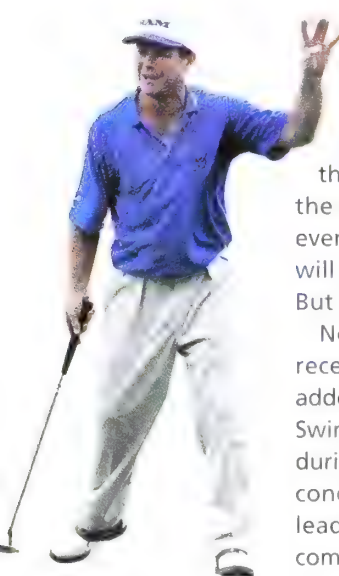
**Golf in the
modern era has
always had
an international
flavor**

On the West Coast

BY MARK SOLTAU

PHOTOGRAPHY BY J.D. CUBAN/PGA TOUR

When Bank of America became a presenting sponsor of the PGA TOUR's West Coast Swing earlier this year, little did the company know it would last until August. Talk about a bargain!



Tom Watson

Officially, the eight-tournament stretch known as the West Coast Swing was supposed to end March 1, 1998 in Los Angeles with the Nissan Open. But El Niño made a mess of things on the Monterey Peninsula during the AT&T Pebble Beach Pro-Am, and the event was postponed after two rounds. It will be completed Aug. 17, six months late. But for someone, it will be worth the wait.

Not only does the tournament winner receive \$450,000, Bank of America has added a \$100,000 bonus for the King of the Swing, the player who earns the most money during the West Coast schedule. When play concludes at Pebble Beach, the money leader will be presented with a new laptop computer and on-line banking account.

"We're stretching the budget a little bit," said San Francisco-based Joe Frisch, Bank of America's vice president of sports marketing. "We're looking forward to crowning that winner."

Bank of America, which also sweetened every West Coast purse by \$300,000 as part of a five-year agreement with the PGA TOUR,

will award \$100,000 annually for the development of The First Tee, a youth-oriented golf initiative established by the World Golf Foundation.

"It's important to be involved in a sport with such a sterling reputation," Frisch said. "It's also good for the communities." The partnership with Bank of America was timely for the PGA TOUR, which was looking for an incentive program to strengthen fields and build exposure for its West Coast stops. Part of the problem was weather, which is often unpredictable in January and February. The other was scheduling. With the addition of unofficial, made-for-television events like the Franklin Templeton Shark Shootout, the Skins Game, and the Wendy's Three-Tour Challenge, some top players were competing into December and then taking time off.

They now rethink their scheduling, which should increase galleries and television ratings.

"The addition of a presenting sponsor for our West Coast events was a top priority for 1998," said PGA TOUR Commissioner Tim Finchem. "The additional promotion and exposure for our first eight events on our schedule got the TOUR season off to a rousing start."

At each event, Bank of America showcases its new products in a private tent and entertains customers. Golf has provided the perfect forum.

"We enhance a lot of relationships on the commercial and private banking sides," Frisch said.

When play resumes at Pebble Beach, Tom Watson and Tim Herron share the lead at 10-under-par 134. Jay Haas, Phil Mickelson and Tom Lehman are one stroke back at 135, followed by Davis Love III, Chris Smith, Tom Pernice, Jr., Paul Azinger and Jim Furyk at 136.

After seven West Coast tournaments, David Duval leads the money list with \$553,663 followed by Tiger Woods (\$485,600), John Huston (\$460,250), Jesper Parnevik (\$454,623) and Fred Couples (\$427,263). Watson ranks third on the West Coast money list with \$359,400, Mickelson is 10th at \$321,450 and Love is 28th at \$147,875. All of which makes for an exciting finish, especially since three courses are being used. ■

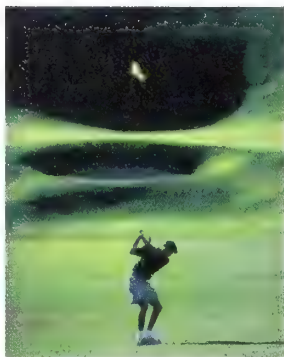


One of Fortune Brands' Sweetspots

Go for the stick.

"What's the key to hitting great iron shots? Finding the sweetspot consistently—something you can do by playing the new King Cobra II irons. Their unique clubhead design and heel-side weighting gives them an ultra-large, easy-to-find sweetspot that makes these the sticks to go for. Thousands of independent tests confirmed that golfers like you rated Cobra number one over every other brand. In their words, King Cobra II irons gave them: 'Better distance. Better accuracy. Better feel.'"

— Greg Norman



The NEW
King Cobra II irons.



Want to hit great iron shots? Go for the stick: The new King Cobra II irons, by Cobra. One of the three hottest brand names in golf, along with Titleist and FootJoy. Together, they make up the most powerful threesome in the sport. And beyond golf, Fortune Brands excels with a portfolio of premier consumer brands like Jim Beam, Moen, Master Lock, Day-Timer, Swingline and Kensington.

FORTUNE BRANDS

*Building a Fortune Around
the World.*

Visit www.fortunebrands.com or call 800 310-5960 NYSE:FO

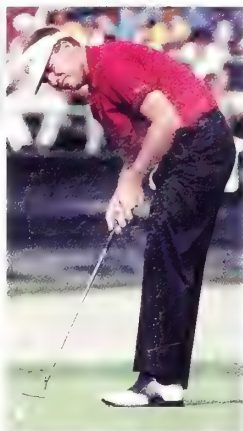
Visit www.cobragolf.com www.titleist.com www.footjoy.com

Buick & the PGA TOUR:

40 Years...and Counting

BY JEFF WILLIAMS

Buick Motor Division's 40th anniversary in 1998 as the original title sponsor of the PGA TOUR is more than a celebration. It's a reaffirmation that the automaker didn't just have a superior idea, but an idea built to last for decades.



Steve Elkington

The foresight of Buick's interest in professional golf as a marketing tool is amplified today in an era when every automobile manufacturer worldwide is affiliated, in one form or another, with big-time golf. The other automakers know now what Buick knew back then: The demographics work. Golfers fit the profile of Buick's target market, now more than ever.

"It's been an opportunity for us to partner with our dealers and the communities our dealers do business in," said Dave Lyons, manager of golf marketing for Buick. It's a marketing tool that's been successful for us. It's plain good for automobile sales."

In 1957, golf's landscape was changing and major American companies, led by Buick, were monitoring the growth of the game, years before *demographics* became a buzzword. Golf was beginning to make an imprint on lifestyles, years before the leisure-time concept captured the essence of how 20th century Americans wanted to live.

Before corporate sponsors, most golf tournaments were sponsored by local civic groups, such as Chambers of Commerce, to promote their communities.

MUTUAL RESPECT

Buick's relationship with the PGA TOUR began officially in 1958. The concept originated a year earlier when the founder of the Buick Open, Waldo McNaught, watched

the 1957 Carling Open at Flint Golf Club in Michigan. McNaught, Buick's public relations director, immediately saw the future and embarked on a plan to move the tournament to Warwick Hills Golf and Country Club in Grand Blanc, just a few miles south of Buick's world headquarters, and rename it the Buick Open. In 1959, Buick signed a six-year agreement with the PGA TOUR. It was the longest and largest single financial sponsorship deal in professional golf at the time.

The relationship, like a golf swing on the PGA TOUR, is based on solid fundamentals.

"It's just that we both really understand each other's marketing objectives and have respect for the organizations and what they have accomplished over the decades," said Mike Stevens, PGA TOUR vice president of corporate marketing.

"It's great to deal with Buick because we have a familiarity, we work closely with them and we know what their objectives are in using the tournaments."

NATIONAL STRATEGY

Lyons is the point man in Buick's golf-related efforts. Golf works as a marketing tool, he said, by opening up lines of communications. Buick long ago identified the PGA TOUR as the best possible vehicle to reach customers and potential customers.

With four tournaments placed strategically around the United States, Buick is the title sponsor with the most TOUR events. That's not all. Buick has been the official car of the PGA TOUR since 1984.

In 1986, Buick's commitment to the PGA TOUR grew even greater, and the focus changed from a regional to a national scope.

The broadened scope included adding three more PGA TOUR events under the Buick banner, spreading them around the country and throughout the annual TOUR calendar to maximize exposure. The Buick

An integral
element in
Buick's link
to golf is its
PGA TOUR staff
of four golfers



PHOTO OF CAR BY STAN BADZ PGA TOUR

Classic at Westchester Country Club in Rye, NY, and the Buick Challenge at Callaway Gardens in Pine Mountain, GA, were added in 1990; the Buick Invitational at Torrey Pines Golf Course in La Jolla, CA, in 1992. Buick and its dealers also are involved with events on the NIKE TOUR.

Buick, like any corporate sponsor, strives to accomplish several things for its financial outlay. The most obvious and easiest to define is reaching a target audience. The others include enhancing relationships with dealers, brand building and community involvement through the charitable nature of proceeds raised through tournaments. Each, in its own way, is of critical importance to the scheme of things.

As it was 40 years ago, Buick remains ahead of the curve in maximizing the relationship.

"Obviously, we feel good that something we took the initiative on so many years ago has been so successful," Lyons said. "We feel good, particularly, that we've been able to bring something to our dealers that not only is good for car sales but is good for the community. As for the charity part of the PGA TOUR, I can't think of any other sport that can say that it gives so much to charity."

CHARITABLE DEEDS

Buick tournaments have raised nearly \$14 million for charities since 1982.

Tom Wilson, tournament director for the Buick Invitational at Torrey Pines Golf Course, effusive in his praise of Buick's stewardship. The Buick Invitational benefits some 10 neighborhood charitable organizations and the "Save Our Sports" programs at 58 high schools throughout the San Diego area.

The tournament raised \$2 million in its first 30 years before Buick became the sponsor in 1992. It matched that contribution, adding an additional \$2 million, in the first six years under the Buick banner.

Lyons sees the charitable contributions as an opportunity to give something back to the communities that support Buick and the golf tournaments. Those charities include, among others, the American Cancer Society, Boy Scouts of America, American Red Cross, Boy Scouts of America, Boys and Girls Clubs, hospitals and medical centers, university sports programs, youth and educational organizations and the fine arts.

GOLF AMBASSADORS

An integral element in Buick's link to golf is its PGA TOUR staff of four golfers—Ben Crenshaw, Steve Elkington, Chip Beck and David Berganio. Crenshaw is the dean. He signed his first endorsement agreement in 1988, followed by Beck in 1992, Elkington in 1994 and Berganio in 1997.

Buick's selection of those players reflects a philosophy. The players are chosen for abilities beyond golf.

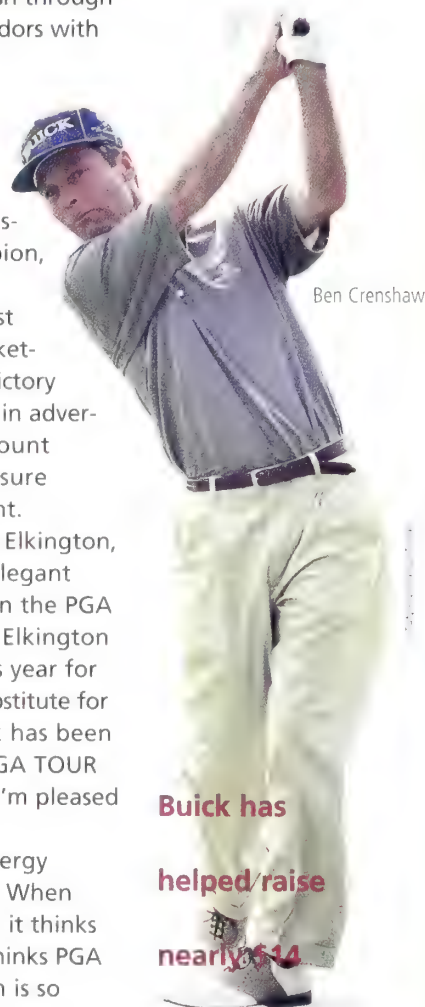
They understand and appreciate Buick's goals on marketing vehicles and help push through various initiatives. They're ambassadors with golf portfolios.

Crenshaw, nicknamed Gentle Ben, is a gentleman golfer in the mold of Bobby Jones, and few golfers are more respected. He's a student of the game and a golf historian. A two-time Masters champion, Crenshaw's victory at Augusta National in 1995 is one of the most storied in golf history. On the marketing/promotional side, Crenshaw's victory was worth an estimated \$3 million in advertising for Buick based on the amount of television and newsprint exposure he received during the tournament.

Buick has another big winner in Elkington, the 1995 PGA Champion, whose elegant swing is one of the most envied on the PGA TOUR. The role of ambassador for Elkington included a trip to Grand Blanc this year for the Buick Open Media Day as a substitute for 1997 champion Vijay Singh. "Buick has been a key supporter of golf and the PGA TOUR for many years," Elkington said. "I'm pleased to be a part of that."

Longevity is the basis of the synergy between the PGA TOUR and Buick. When the PGA TOUR thinks automobiles, it thinks Buick. When Buick thinks golf, it thinks PGA TOUR. Buick's side of the equation is so intense that its sports marketing efforts are focused exclusively on golf.

"The PGA TOUR is very supportive," Lyons said. "They've brought the game of golf along and made it what it is today. They support golf and the future of golf." ■



Ben Crenshaw

Buick has helped raise nearly \$14 million for charities since 1982

quiet
please.

Pro at the tee.

Whooooosh. (325, easy)

Another day on PGA TOUR.

Another day Lucent Technologies helps PGA TOUR stay on
course with rapid growth (e.g., expanded communications system
doubles voice/data capacity. Staff gets info faster on Net.

Players will get tee times and pairings 24 hrs./day).

Shhhhhh.

Another big hitter at the tee.

Lucent Technologies
Bell Labs Innovations

600 Mountain Avenue
Murray Hill, NJ 07974-0636
http://www.lucent.com
1-888-4-Lucent



We make the things that make communications work

ELECTRONICS

YOUR CAR MAY BE SMARTER THAN YOU

The latest high-tech wizardry can counter driver error

Gears and drive shafts have had their day in Detroit. Silicon chips and electronic systems are fast replacing many of the metal parts that were venerated by generations of automotive engineers. Microprocessors, intelligent systems, smart cars, and software—these are the keys to the future. Metal components will always be important to the auto industry. But there will be far fewer of them as carmakers switch to electronics whenever possible to boost performance, lower weight, improve safety, speed up development cycles—and offer all kinds of new goodies, like radar-based cruise control. “I’m looking to the day when the engine drives

nothing but a generator that provides power for everything else,” says Linos J. Jacovides, head of electrical and electronics development at General Motors Corp.’s Engineering Center.

Over at Ford Motor Co.’s Advanced Vehicle Technology Center, managers actually talk about modeling cars after personal computers. The chassis would be like a PC cabinet, and car companies would battle to become the Microsoft Corp. of automotive programs, offering yearly software upgrades to people who don’t want to buy a whole new “computer.” “I think it’s going to come,” says Cary A. Wilson, director of electrical and electronic engineering.

This strange new Detroit has emerged in just the past five years. “The change in culture was very painful,” recalls Gregory J. Avesian, manager of solutions marketing at the Chrysler Technology Center. Chrysler Corp. used to pride itself on experts who knew everything there was to know about mechanical esoterica. Now, Chrysler relies a lot on suppliers for such expertise so its in-house engineers can focus more on electronics.

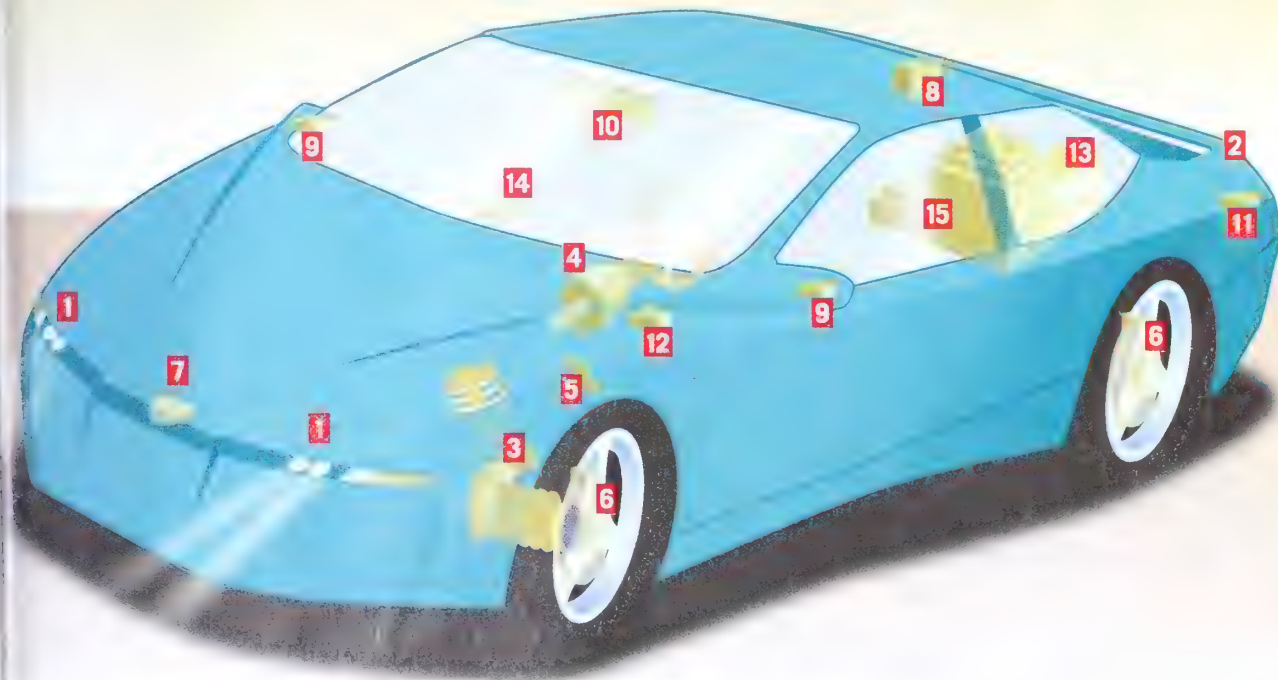
Some major mechanical components are already getting the heave-ho. Steering columns, brake linkages, and throttle cables are giving way to wires and chips. The results are steer-by-wire, brake-by-wire, and throttle-by-wire systems. “These ‘by-wire’ controls are basic enablers that will allow advanced features on future cars,” says Benjamin J. Knight, a vice-president at Honda R&D Americas Inc. in Torrance, Calif.

COMMON SENSORS. In “by-wire” systems, when a driver turns the steering wheel or stomps on the brake, the movement doesn’t directly turn the wheels or apply the brakes as it used to. Instead, the motion is detected by sensors and relayed to computer chips. These chips then signal motors to turn the wheels

High-Tech from Head to Tail

From small laser headlights (1) for improved aerodynamics to LED tail lights (2) for better visibility, everything automotive is going high-tech. Silicon is displacing metal in adaptive suspensions (3) and “by-wire” steering (4), acceleration (5), and braking (6). Radar (7) scouts for

trouble ahead. Digital-imaging chips (8,9) look backward and provide a wide-angle view in the rear-view mirror (10), while other imagers (11) help cars squeeze into tight parking spaces. Yaw-and-pinch sensors (12) help electronic gear (13) maintain stability. Voice-recognition system (14) can start the car and adjust seats and radio. Already, cars are stuffed with up to 60 microprocessors, and more will be added soon (15).



or activate the brakes. Once microprocessors entered such control loops, they brought the ability to do more than just relay the driver's intent. They could embellish it with intelligence. Antilock braking systems (ABS) were an early example. "With ABS, you can make a typical driver perform like an expert driver," says Chrysler's Avesian.

The latest spin on ABS technology goes beyond pumping the brakes to avoid skids. It out-thinks Sunday drivers who try to zip around a curve too fast. Yaw and pitch sensors detect excessive sideways force, and before the driver loses control, a computer intervenes—nudging the brakes while easing back on the throttle to prevent fishtailing or oversteering.

The first such system, called the Electronic Stability Program (ESP), was unveiled in 1995 by Germany's Robert Bosch. BMW quickly added ESP to a couple of high-end models, and Audi and Mercedes-Benz soon followed. Last year, the system was installed in some 50,000 cars, mostly European luxury models. GM put a similar technology on some Cadillacs, and Honda Motor Co. is pioneering stability systems in Japan, on Accords.

MISSING MOOSE. This year, ESP is a hot ticket—thanks to a mishap with Mercedes-Benz's new little A-class car. Last year an A car flipped during a maneuver that tests a car's ability to swerve around an unexpected obstacle at 37 mph. Daimler Benz stopped production to reengineer the A-class, adding the former \$1,000 ESP option as a standard feature. The stabilized A-class model passed Sweden's so-called moose test—moose and elk are frequent interlopers on Swedish roads. Then Daimler announced that ESP will be included on all its cars. Not to be outdone, Volkswagen and other European car companies began plunking down big orders. Bosch pegs sales at 250,000 this year and heading for 1 million in 2000.

Many more electronic marvels are coming. Suppliers and auto makers in Asia, Europe, and the U.S. are developing new cruise controls. These versions are dubbed adaptive, or intelli-



New navigational systems may include a "drowsy-driver" feature that sounds an alarm at the first signs of sleepiness

THE CAR'S SMART CRUISE CONTROL WILL ALLOW DRIVERS TO NAVIGATE TRAFFIC WITHOUT TOUCHING THE BRAKE OR ACCELERATOR

gent, because they don't just maintain a set speed. They use radar to gauge the speed of a slower-moving vehicle ahead and automatically slow your car to the same speed until you decide to pass. Adaptive cruise control is now available on the Mitsubishi Diamante, and Ford has outfitted a Jaguar XJ6 with a prototype, which performed flawlessly during a recent test in Dearborn, Mich. A BUSINESS WEEK editor navigated 15 miles of moderate traffic on I-94 without once touching the brake or accelerator, despite being cut off twice by Michigan cowboys.

With a different set of sensors and motors, the way a car rides can adapt to road-surface changes on a second-by-second basis. Other sensors will surround cars with an early-warning cocoon. Infrared detectors can spot the heat of a car in the blind spot and sound an alarm when you flick the turn signal before changing lanes. New radars are being developed that will see past a truck ahead—by bouncing a signal off the pavement under the truck—to determine if it's safe to pass.

G-Link Technology, a privately held company

in San Jose, Calif., is one of many outfits working on inexpensive optical imaging chips for cars. Placed over the rear bumper, they could aid in parallel parking. Or they could peer backward from under the rear-window brake light and from a corner both outside rearview mirrors. All the view could then be digital combined and displayed on a screen that takes the place of the inside rear-view. "So I can see everything behind me, including the blind spot," says G-Link Vice-President Max L. Blankenbiller. He expects the first applications to show up next fall in Japan.

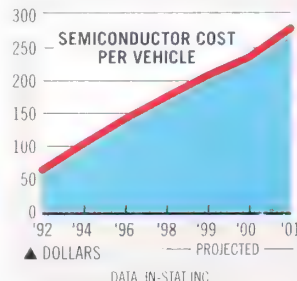
The rear-view mirror might have a camera, too—keeping an eye on the driver for signs of sleepiness. Drowsy driver alerts will also

be featured on some new car-navigation systems. They'll be smart enough to tell the difference between erratic wandering and ducking in and out while looking for an opening to pass. When a driver begins to nod off, the car will set off a flashing light or buzzer. Cell phones are becoming de rigueur on next-generation navigation systems, so the driver's car's computer can retrieve traffic updates from the Internet—or call 911 and relay your location when an air bag pops or the engine conks out.

Within a decade or so, cars could become so savvy and chatty that hitting the road will be a much more pleasant experience. Pulling into a crowded passing lane should be no hassle, for instance. Your car's computer will alert the computers in adjacent cars, and they'll let you in because chips don't

practice aggressive driving. It may get harder for people to endanger others by engaging in risky behavior behind the wheel. The rolling PC will know what's reckless, and everything the driver wants to do will have to go through a computer. *By Otis Port in Detroit and Larry Armstrong in Los Angeles*

CARS GET SILICONIZED



Priority status on six airlines.

LIBERTY, JUSTICE AND THE LAW



Travel the world smoothly on all six Star Alliance™ airlines—United Airlines, Air Canada, Lufthansa, SAS, THAI and Varig.

Apply mileage points from qualified flights on any of the six airlines toward your overall frequent flyer status.

Indulge yourself in any of our partners' lounges. More than 190 around the world are open to eligible First and Business Class travelers and to Star Alliance Gold members.

Redeem miles for reward travel on any of our six carriers, giving you more than 600 destinations around the world to choose from.

Enjoy Priority Check-In on all of our partners' flights. Regardless of the airline you're flying, a priority counter awaits Star Alliance Gold members.

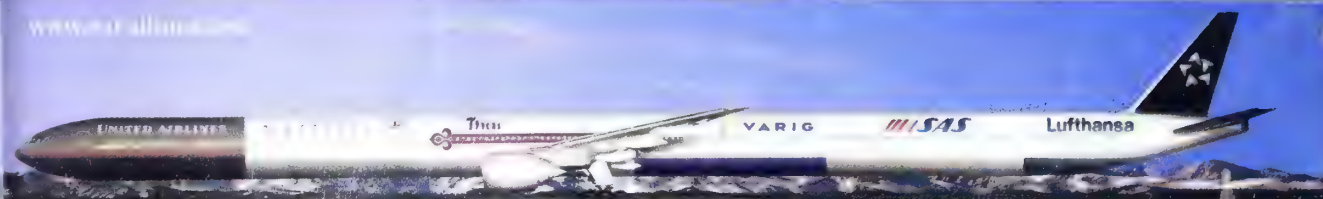
Be more confident when trying to fly a sold-out flight. Priority Wait-List and Priority Standby* put Gold and Silver members toward the top of the list on any Star Alliance flight.

STAR ALLIANCE



The airline network for Earth.

www.staralliance.com



*Where allowed by law.

Netscape

» NOW IN EVERY HEADLINE

KNIGHT RIDDER'S 31 local daily newspapers were facing fierce new competition for readers and ad revenues. Was there a breakthrough way to deliver the news? We worked with Knight-Ridder New Media to help develop an electronic news clipping service, searchable classified ads, local sports and entertainment services – all of which helped them wring additional revenue from their papers. What made it possible? Netscape PublishingXpert and Netscape Enterprise server software. Today, there's no telling what business will break away from the competition with a Netscape solution. Learn more with a free information packet – call 800-945-9361 or visit home.netscape.com/breakaway



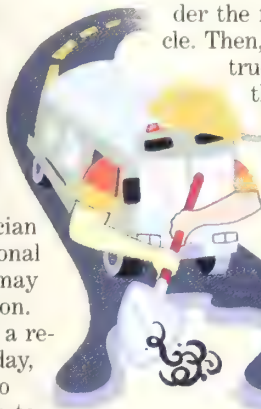
NETSCAPE

BY JOHN CAREY

THIS BUS FIXES POTHOLES ON THE RUN

LONG TIRED OF suspension-bending potholes and endless traffic jams caused by road repairs? Leo M. Mara, a technician at Sandia National Laboratories, may have the solution.

Inching past a repair crew one day, Mara decided to design a vehicle to repair potholes on the run. It took him four years to figure out the details, but he has just won a patent on the complete system. The idea calls for a vehicle about the size of a Greyhound bus. On its front pumper are scanners that spot cracks and holes in the road. Once spied, the gaps are cleaned with high-pressure air and vacuumed by systems un-



der the front of the vehicle. Then, as the repair truck drives over the holes, arrays of nozzles attached to the bottom of the chassis shoot filler material in the pattern needed to fill the flaws.

Equipment further back on the vehicle tamps down and cleans the patches and makes sure the fixes are complete.

Mara figures the vehicle could operate at 10 mph or faster and could fill small cracks long before they turn into dangerous potholes. That would make the nation's roads a lot smoother and safer. Sandia is seeking a partner to commercialize the system. □

TOOL FOR STAYING STEP AHEAD OF HIV

POWERFUL DRUG COCKTAILS keeping HIV at bay in thousands of people infected with the virus. But given the virus' ability to mutate rapidly, patients are worried their viral strains will develop resistance to the treatments. Indeed, HIV has already proven that it can quickly develop resistance to multiple-drug treatments. And doctors increasingly are dealing with patients in whom strains of the virus are creep back up.

But there may be a way ahead off resistance before it occurs. By reading the genetic codes of viruses as they mutate and evolve in actual tests, Robert M. Lloyd Jr.,

scientific director at Applied Sciences Inc. in Norcross, Ga., made a critical discovery. Before a strain of virus actually mutates enough to become resistant, he found, it typically makes an intermediate change in its genetic code. That mutation, Lloyd reasoned, can be used to predict later mutations that lead to resistance.

By searching for these intermediate mutations, "we can have a crystal ball of what resistance mutations are coming," explains John Stevens, chief executive officer of Visible Genetics Inc. in Toronto, which owns Applied Sciences.

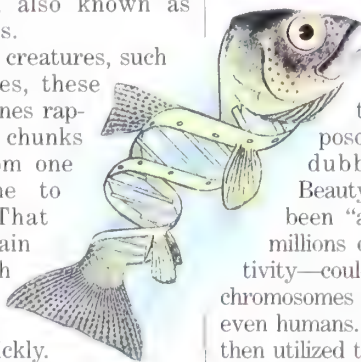
Once a "crystal ball" mutation is spotted, it may be possible to change the combination of drugs to prevent resistance from developing. □

ON THE TRAIL OF THE JUMPING GENES

A CRUCIAL ASPECT OF treating patients with gene therapy or engineering genetically altered animals is the method for delivering new genes. But none of the techniques attempted to date, from using modified viruses to injecting DNA alone, has proven ideal. That's the reason University of Minnesota geneticist Perry B. Hackett decided to harness nature's own system for shuffling around DNA—using so-called jumping genes, also known as transposons.

In lower creatures, such as fruit flies, these jumping genes rapidly move chunks of DNA from one chromosome to another. That helps explain how such animals can mutate so quickly.

Hackett reasoned that transposons would make good vehicles for the delivery of genes to treat disease or to



correct genetic defects. But active jumping genes weren't known to exist in humans or any other vertebrate.

Hackett decided to take a closer look. Although his research team hunted through the vertebrate kingdom to ferret out examples of working jumping genes, it failed to discover any. But the researchers did locate mutated transposons in Atlantic salmon and rainbow trout that had been active millions of years ago.

Hackett spliced together the transposons from each fish to create the first working vertebrate jumping gene. Last year, the researchers conducted experiments showing that the transposon—which they dubbed "Sleeping Beauty" because it had been "awakened" after millions of years of inactivity—could jump into the chromosomes of fish, mice, and even humans. The researchers then utilized the transposon to carry new genes into zebra fish and other animals. Now Hackett aims to develop it for use in gene therapy. □

GETTING TO THE BOTTOM OF BACK PAIN

THE CAUSES OF ACHING BACKS REMAIN MYSTERIOUS. CAN one wrench injure sensitive disks and be the cause of months of suffering? Or does damage accumulate gradually and insidiously?

A new study by Jeffrey Lotz, director of the Orthopedic Bioengineering Laboratory, and colleagues at the University of California at San Francisco and the University of Calgary suggests the culprit is often gradual, long-term damage. By studying mice tails, which contain disks similar to those in human backs, Lotz's team discovered that forces equivalent to heavy lifting bring debilitating changes. With too much force, water-filled spinal disks lose their ability to retain water and shrink, causing unhealthy and painful changes. "This is the first study to show that heavy loads on the spine lead to remodeling of the disk," says Lotz.

He hopes the study, presented June 12 at a meeting in Brussels, will lead to better ways of preventing and treating the disk damage that leads to back pain. □

Cherries in winter,
peaches in spring. It's
not the weather that's
changed, it's the
packaging.

Every day, at 36,000 feet, a global
exchange of sorts takes place.

Millions of freshly picked items crisscross
the globe, many of them gently nestled in
packaging's version of a first-class seat—
a carton or container designed by
International Paper.

Chilean grapes land in Marseilles.

California melons touch down in Warsaw.

Tuscan tomatoes arrive in Kyoto.

What helps them survive the trip?

Package design that anticipates reality:
temperature swings, humidity, jostling,
customs delays, curious spiders and the
occasional 15-foot plunge from a cargo
ship's hoist.

Packaging also has to be specific.

Frozen chicken, fresh juice, fine china—
each poses a very different challenge.

Last year alone, our engineers designed
over 44,000 distinct kinds of packaging
for businesses all over the world. And
in a lab where we mimic the rigors of global
travel, our packages are tested until they
reveal their every strength and weakness.
We do it for our customers, and for all
you who crave fresh, unbruised cherries
in midwinter.

INTERNATIONAL  PAPER

We answer to the world.

www.ipaper.com



INTERNET ADDRESS DIRECTORY

Reach these Business Week advertisers on the Web:

3Com
www.3com.com
3M
www.3m.com
Aetna
www.aetna.com
AMD
www.amd.com
American Century
www.americancentury.com
American Express Financial
Advisors
www.americanexpress.com/
advisors/
The American Institute
of Architects
www.aiaonline.com
American Isuzu Motors, Inc.
www.isuzu.com
American Power Conversion
www.apc.com
Andersen Consulting
www.ac.com
AT&T
www.att.com
Aurum Software
www.aurum.com
Bell Atlantic
www.bell-atl.com
Chrysler
www.chryslercorp.com/
Cisco
www.cisco.com
The CIT Group
www.citgroup.com
Clarify
www.clarify.com
CNF Transportation Inc.
www.cnf.com
Comdisco
www.comdisco.com
Compaq
www.compaq.com

Computer Associates
www.ca.com
Compuware Corporation
www.compuware.com
Continental Airlines
www.fly.continental.com
Dale Carnegie Training
www.dale-carnegie.com
Delta Air Lines
www.delta-air.com
Digital PC
www.windows.digital.com
Diners Club International
www.dinersclub.com
J.D. Edwards & Company
www.jdedwards.com
EMC
www.emc.com
Energy Cost Savings Council
www.plugin.org
Equitable/AXA
www.equitable.com
Ericsson
www.ericsson.se
E*TRADE
www.etrade.com
Federal Express
www.fedex.com
FlexiInternational Software
www.flexi.com
Ford
www.ford.com
France Telecom
www.francetelecom.fr
Fujitsu
www.fujitsu.com
Fujitsu PC Corporation
www.fujitsu-pc.com
Gateway 2000
www.gateway.com
General Motors
www.gm.com

GTE
www.gte.com
Hammermill
www.hammermillpaper.com
Hewlett-Packard
www.hp.com
Honda
www.honda.com
Hyatt Hotels Corporation
www.hyatt.com
Hyperion Software
www.hysoft.com
IBM
www.ibm.com
Infiniti
www.infiniti-usa.com
International Paper
www.ipaper.com
Iomega
www.iomega.com
JBA International
www.jbantl.com
Lawson Software
www.Lawson.com
Lexus
www.lexus.com
Lincoln-Mercury
www.lincolnmcury.com
Lotus
www.lotus.com
Lucent Technologies
www.lucent.com
MCI
www.mci.com
Mercedes-Benz
www.usa.mercedes-benz.com
Merrill Lynch
www.mlc.com
Microsoft
www.microsoft.com/
Mississippi Power
www.msppower.com/ecodev
MITA
www.mita.com
Mitsubishi Electronics
America, Inc./Electronic
Device Group
www.mitsubishiehp.com
Mitsubishi Motor Sales
of America
www.mitsubisiamer.com

MOVADO
The Museum Watch
www.movado.com
National Business Aviation
Association, Inc.
www.nbaa.org/nonmember/
library/realworld/welcome.htm
Nortel
www.nortel.com
Northwest Airlines
www.nwa.com
Novartis
www.novartis.com
Novell
www.novell.com
Okidata
www.okidata.com
OPEL
www.opel.com
The Panasonic Personal
Computer Company
www.panasonic.com/ruggedpc
PeopleSoft
www.peoplesoft.com
Praxair
www.praxair.com
The Principal Financial
Group
www.principal.com
QAD Inc.
www.QAD.com
QUALCOMM
www.qualcomm.com/cdma
Republic National Bank
www.rnb.com
Ricoh Corporation
www.ricoh.com
Roberts Express, Inc.
www.roberts.com
Royal & SunAlliance
www.rovalsunalliance.com
SAP
www.sap.com
SAS Institute
www.sas.com/
Savin
www.sales@savin.com
Charles Schwab
www.schwab.com
Seagate
www.seagate.com
Siemens Corporation
www.siemens.com
Siemens Microelectronics
www.smi.siemens.com
Sprint
www.sprint.com
Sun Microsystems
www.sun.com
Symbios Logic
www.symbios.com/bw.htm
TIBCO
www.tibco.com
Tivoli
www.tivoli.com
Toshiba America
Information Systems
www.computers.toshiba.com
Toyota in America
www.toyota.com/usa
Toyota Motor Corporate
Services
www.toyota.com/usa
Toyota Motors
www.toyota.com
T. Rowe Price
www.troweprice.com
United Technologies
www.utc.com
UPS
www.ups.com
US Airways
www.usairways.com
UUNET Technologies
www.uu.net
Visio
www.visio.com
Vizio
www.vizio.com
Xerox
www.xerox.com

BusinessWeek

www.businessweek.com

You can't beat the **system**. But you
can reach people who
want to buy one.

Maven

The new interactive computer shopping guide.
Found only on Business Week Online.

www.businessweek.com

BusinessWeek ONLINE

IS THERE REALLY A TECHIE SHORTAGE?

es—but it's not as dire as the computer industry says



Don't tell Steve D. Schultz about Silicon Valley's labor crunch. The 48-year-old programmer spent five years designing software for a large drugmaker. Then last year the company brought in a junior programmer from Taiwan at half the \$160,000 Schultz earned as a contract ployee.

In November, the drugmaker didn't renew Schultz's contract. For four months, he searched for a job but ended up nothing, even at far lower pay. Finally, in April, his former employer called him back—still as a consultant—to train his replacement. "The computer industry isn't begging for programmers," says Schultz. "It's looking for year-olds who will put in 80-hour weeks or people from overseas who will be captives at one company."

DEEPER PINCH. For several years, the computer industry has sounded dire warnings about labor shortages that could slow the high-tech juggernaut. In recent months, officials from Microsoft Corp., Intel Corp., and other high-tech firms have begged Congress to double

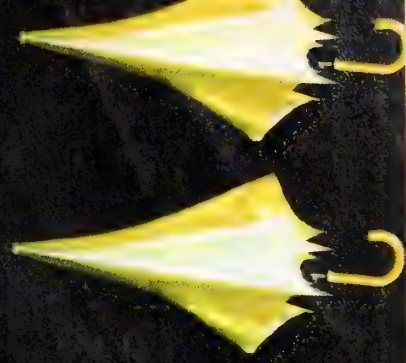
HELP AVAILABLE

Programmers like Schultz, 48, say they are passed over for grads who know the latest languages and can put in more hours

the 65,000 visas for skilled foreign workers to help fill the 350,000 jobs now open. The Senate passed such a bill in mid-May, and the House seems likely to follow suit. High-tech "firms do not have the talent to develop new products and grow their businesses," says Harris N. Miller, president of the Information Technology Assn., a trade group.

But some analysts think that Schultz could be on to something: The high-tech labor crunch is bad, but it may not be worse than elsewhere. They point out that employment has jumped only for the highest-skilled computer scientists, not programmers or systems analysts—jobs that often go to immigrants on high-skills visas. Nor are shortages driving pay into the stratosphere (charts, page 97). "There's no evidence that the computer industry has worse labor shortages than other high-skilled industries," says American University economics professor Robert I. Lerman.

High tech may feel the pinch more acutely, say Lerman and others, because it's structured differently and relies on



BERLIN. THE ONLY

EUROPEAN CITY

WITH MORE MUSEUMS

THAN RAINY DAYS.



Besides offering all the advantages of a top business location, Berlin gives you a unique, dynamic and varied cultural scene to explore. No matter what the weather, there's always plenty to see and to do here.

Whether your taste is classical, avantgarde or highly individual, if you were to visit one of these attractions each rainy day, you'd be busy well into the next century. So come and take full advantage of both our cultural and business opportunities. For more information about Berlin as your next business location, please contact us at: Berlin Economic Dev. Corp.

Fax: + 49 (30) 399 80-239,

e-mail: info@wf-berlin.de,

Internet: <http://www.berlin.de>

Your Gateway to New Opportunities.

Berlin

HOW YOU NEED TO THINK

ANNOUNCING

THE THIRD ANNUAL
BUSINESS WEEK CONFERENCE ON

the digital ECONOMY

*The Innovation Corporation:
The Power of New Ideas*

December 2-3, 1998

The Fairmont Hotel, San Francisco, CA

Today's engine of innovation and progress is information technology. But it is up to you, the executive, to generate the ideas that drive revenue.

Innovative executives know how to exploit data to help create cutting-edge products, implement new services, and mine customer information to target and grow the consumer base. They know that succeeding in the digital economy means understanding and harnessing the power of new technologies to create value for their customers.

Join us this December, as the digital economy's thoughtleaders, most accomplished executives and industry players share the knowledge, vision, and skills needed to exploit technology for competitive advantage. Hear top-line growth ideas and bottom-line solutions to enhance the future of your business. Only at *The Third Annual Business Week Conference on The Digital Economy*.

Presented in partnership with

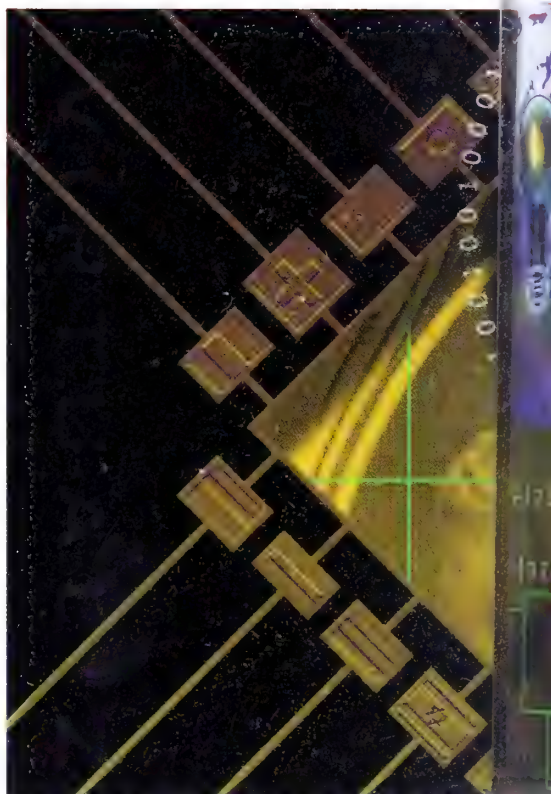


and sponsored by

KPMG Peat Marwick LLP • Lucent Technologies, Inc.
Novell • StorageTek • US Web Corporation

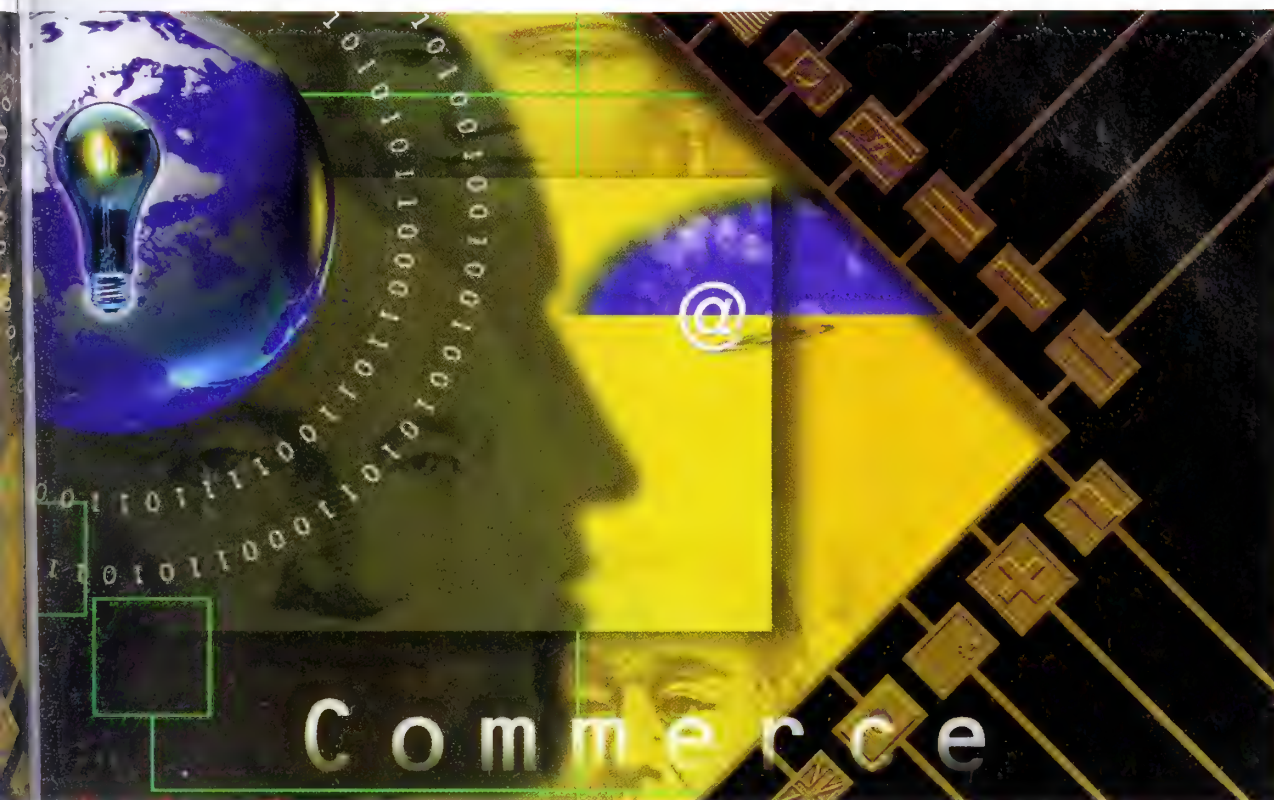
with support from

Fairfax County Economic Development Authority



BusinessWeek
EXECUTIVE PROGRAMS

WHAT YOU NEED TO KNOW.



DISCUSSION LEADERS

• **DON TAPSCOTT**

author,
THE DIGITAL ECONOMY



• **JAMES F. MOORE** •

founder and chairman,
GeoPartners Research, Inc.



TO REGISTER OR FOR MORE INFORMATION ON:

The Third Annual Business Week Conference on The Digital Economy, please contact Julie Terranova,

Registration Manager • **PHONE:** 888-239-6878 • **FAX:** 212-512-6281

E-MAIL: julie_terranova@businessweek.com • **FAX ON DEMAND:** 888-239-6878 Document #60

The McGraw-Hill Companies



28.1999
PHOTO BY CHRISTOPHER RECORD
THE CHARLOTTE OBSERVER

COACH MIKE KRZYZIEWSKI HUGS DUKE SENIOR
STEVE WOJECIENOWSKI AFTER THE BLUE DEVILS'
CONFERREX AGAINST NORTH CAROLINA.

LIFE, LIKE VICTORY, IS SWEET

AMERICANS LIVE AND DIE (A LITTLE) WITH THE
TEAM THEY LOVE. IN NEWSPAPERS LIKE THE
CHARLOTTE OBSERVER, KNIGHT RIDDER BRINGS
HOME THE DRAMA. FOR ALL THE NEWS THAT
MATTERS, WE'RE THE BEST GAME IN TOWN.

>KNIGHT RIDDER<

INFORMATION FOR LIFE

IN 11 NEWSPAPERS AND THROUGH THE REAL CITIES WEB NETWORK, KNIGHT RIDDER IS A TRUSTED SOURCE
WITH REGIONAL ROOTS AND NATIONAL RESOURCES.

The Workplace

temporary employees more heavily than other industries do. Microsoft, for example, employs 5,000 contract workers inside its 17,000 permanent U.S. employees. But finding temps isn't easy in full-time positions are plentiful. Every shortfall would push employers to offer permanent posts to keep temps from taking other jobs. Indeed, there really was a labor shortage, "I would hire me full-time," says Bert J. Wade, a systems analyst in Minneapolis with a masters in engineering. Wade, 35, says he has eight permanent jobs around the country but only gets offers for half the \$100,000 he makes now. But temps are a hallmark of high-tech culture, industry officials insist, and

grueling work pace is difficult to maintain when families come along, tech workers say. Employers also prefer to hire programmers out of school who know the latest computer languages. "I thought it would be easy to get a job, but I'm not 20 anymore," says William L. Spence, 47. The physicist was laid off last year after 13 years at a national lab at Stanford University and has had no offers after applying to hundreds of Silicon Valley companies. Industry officials deny any age discrimination, but they admit they like recent grads. "They have good training and are open to new technologies," says Microsoft Recruiting Director David Pritchard.

Plenty of immigrant labor already helps mitigate shortages—and holds

WHERE'S THE CRUNCH?

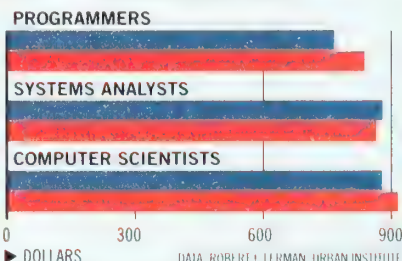
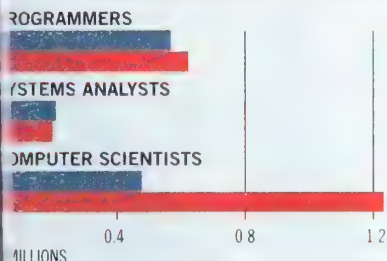
DEMAND IS FOR TOP SKILLS...

...AND WAGES AREN'T SPIKING

NUMBER OF EMPLOYEES

■ 1988 ■ 1997

AVERAGE WEEKLY WAGES



DATA: ROBERT L. LERMAN, URBAN INSTITUTE

earn up to 40% more than regular employees. "They feel like they have control over their careers," says Richard Schwartz, a vice-president at All Data Corp., a Bellevue (Wash.) that supplies temps to Microsoft and others. So the heavy use of temps is not a reliable economic indicator. Even by the traditional measure of patterns, though, high tech isn't showing classic signs of a crunch. The number of computer scientists, for example, have tripled since 1988, but their weekly pay beat inflation by just 4.4% then and by 1% in 1997, according to the Bureau of Labor Statistics (BLS). **GRUeling PACE.** Systems analysts and programmers have done better. Their weekly pay climbed by 4.3% and 6.7% respectively, in 1997. But that compared with other types of workers: Surveyors beat inflation by 20% and dietitians by 17%, according to the BLS. Programmers' pay has lagged inflation by 1.5% since 1988. "If employers were desperate, they'd be willing to pay more," says Norman Matloff, a computer science professor at the University of California at Davis. Critics argue that age discrimination fuels the shortage. The industry's

down pay. The high-skills visa program, of which about 40% is high-tech workers, requires employers to pay foreigners the going U.S. wage for the same work. Yet three-quarters of employers couldn't produce evidence that visa workers' wages match U.S. ones, according to a 1996 Labor Dept. audit, and some 19% pay less than they had promised on the visa application. Pritchard counters that foreigners actually cost more than U.S. employees, since Microsoft, which has some 1,000 workers on visas, pays to relocate them.

Lerman and others worry that more visas could turn off students from high-tech fields and even feed future shortages. Enrollment in college computer science courses jumped 40% in both 1996 and 1997, according to surveys by Computing Research Assn. in Washington. But as students see jobs filled by immigrants at lower pay rates, their interest could wane. For now, there's no doubt high-tech companies are hustling to find workers. But their predicament may be no more severe than that of other sectors.

By Aaron Bernstein in Washington, with Steve Hamm in San Mateo, Calif., and bureau reports

We're local, coast to coast, in newspapers...

- >The Philadelphia Inquirer
- >Detroit Free Press
- >The Miami Herald & el Nuevo Herald
- >San Jose Mercury News
- >THE KANSAS CITY STAR
- >The Charlotte Observer
- >Fort Worth Star-Telegram
- >Saint Paul Pioneer Press
- >Contra Costa Newspapers
- >Philadelphia Daily News
- >Akron Beacon Journal
- >The (Columbia, S.C.) State
- >Lexington (Ky.) Herald-Leader
- >The Wichita (Kan.) Eagle
- >The Macon (Ga.) Telegraph
- >Tallahassee (Fla.) Democrat
- >The (Wilkes-Barre, Pa.) Times Leader
- >Duluth (Minn.) News-Tribune
- >Belleville (Ill.) News-Democrat
- >Columbus (Ga.) Ledger-Enquirer
- >The (Biloxi, Miss.) Sun Herald
- >Fort Wayne (Ind.) News-Sentinel
- >The (Myrtle Beach, S.C.) Sun News
- >Bradenton (Fla.) Herald
- >Grand Forks (N.D.) Herald
- >San Luis Obispo (Calif.) Telegram-Tribune
- >The Monterey County (Calif.) Herald
- >(State College, Pa.) Centre Daily Times
- >Aberdeen (S.D.) American News
- >Warner Robins (Ga.) Daily Sun

...and on the Web.

www.realcities.com





TIBCO software connects all your applications, databases and networks. You become a global, real-time, event-driven enterprise. (Over 500 of the world's leading corporations are.) You know instantly the relevant events that drive your business. Your business processes are integrated for smarter, faster decisions. You reduce cycle times. You deliver customer service at the highest level. You win.

And yes, that is rather fortunate for your enterprise.



NEW YORK CHICAGO BOSTON HOUSTON PALO ALTO TORONTO WASHINGTON D.C. LONDON AMSTERDAM COPENHAGEN
STOCKHOLM FRANKFURT LUXEMBURG VIENNA ZURICH MELBOURNE SYDNEY HONG KONG SINGAPORE TOKYO



REGULATORS

...I. JANE SHE AIN'T

Jane Garvey's methodical approach is reforming the FAA

When Jane F. Garvey took charge of the Federal Aviation Administration last summer, she stepped into a bunker of military flyboys more interested in promoting the airline industry than in doing it. "I was hoping they would be," Garvey says with a laugh. "I've disappointed me."

Although Garvey has kept her sense of humor, the problems besetting the agency are no laughing matter. She is struggling to overhaul an agency with a sound managerial culture, aging air control equipment, and too few resources. At the same time, the explosion in air travel is making the skies scarier these days.

But that she hasn't had some success. In June 15, she nailed down a five-year contract with air traffic controllers that boosted their numbers and increased pay for those who cut down on errors in the most stressful towers. That could help the FAA entice controllers to take on the most difficult jobs in the busiest airports.

But Garvey did something no other administrator had done: She listened to the controllers' concerns," Michael P. McNal-

ly, president of the National Air Traffic Controllers, said after the new contract was announced.

Garvey, 54, can use all the goodwill she can find. Her immediate challenge: Fill critical slots that have been vacant for almost a year, including the No. 2 position at the agency. The gaps in personnel frustrate safety groups, the aviation industry, and Garvey herself. "Frankly, it's difficult to attract good industry people for what we can pay," she

OPEN DOOR

Garvey gets high marks for reaching out to labor, industry, and even critics of the FAA at other agencies

says, adding that the FAA's sorry reputation doesn't help.

Then there's a long overdue equipment modernization problem. In June, radar systems lost on Air Force One and Air Force Two in the same week.

Then, days later, Air Force Two again. The incidents followed reports that two commercial jets had nearly collided over New York's LaGuardia Airport. Still, Garvey says she's having trouble getting more money from Congress, which is among the FAA's toughest critics.

GROUNDING. Garvey's progress has been slow, but she's picking up speed. Following through on her goal to stress safety as a top priority, she grounded thousands of Boeing 737s on Mother's Day to inspect the wings for faulty wiring after inspectors found worn fuel tank wires on a handful of jets.

She has also changed the agency's system for conducting inspections. In the past, FAA inspectors routinely checked jets for mechanical problems. Under a new program, inspectors will be assigned to specific airlines and will be charged with monitoring not just a jet's mechanics, but the company's entire safety and maintenance system. Inspectors will evaluate how airlines maintain their planes instead of simply checking to make sure a jet's wing flaps work properly. And Garvey has teamed up with the industry to implement an alarm system that will warn pilots if, for example, they're about to fly into the side of a mountain.

Garvey, who has served as director of the Massachusetts public works department and acting head of the Federal Highway Administration, is methodically dispelling the early perception that she wasn't up to the FAA's top job. She figures bold actions—like ordering rudder

NO GLIDING AHEAD

After a year on the job, FAA chief Garvey still faces daunting problems:

HIRING Garvey remains surrounded by the old guard. She still lacks a deputy. Critics say she's taking too long to fill several key jobs.

AIR TRAFFIC CONTROL With a five-year union contract squared away, Garvey must turn her attention to upgrading the system's aging equipment.

AIRPLANE SAFETY Garvey has shown a willingness to take on the airlines when safety is at stake. But she hasn't dispelled the impression that the FAA is in bed with industry.

CONGRESS She must overcome skeptics on the Hill who believe funding the FAA is throwing good money after bad.

DATA BUSINESS WEEK

assembly inspections of 1,500 Boeing Co. jetliners on June 15—will eventually silence critics. “If I’m not sure about something or something instinctively or intuitively doesn’t seem right, I’ll check it out. I don’t think I’ve made one decision yet that’s been based [solely] on the recommendations of one or two people,” Garvey says.

TOO COZY? One reason for her positive reviews is her prodigious use of a low-tech device—the telephone. The open lines have even endeared her to the National Transportation Safety Board, long critical of the FAA’s deferential attitude toward the industry it is supposed to monitor. “Before Jane got there, I’m not sure the communication was the best between the two agencies,” says Peter Goelz, NTSB managing director, with no small degree of understatement. It hasn’t hurt that she has

Says FAA critic Schiavo of Garvey’s outreach to airlines: “Excuse me, that’s not the problem”

become fast friends with Goelz, who also has roots in New England.

Garvey’s keep-in-touch style is winning points with the industry, too. During May’s 737 inspections, she headed off complaints that she was too hard on airlines. “Jane Garvey is very careful to communicate and coordinate and give us a chance to respond,” says Chester “Chet” Ekstrand, Boeing’s chief lobbyist.

Garvey’s outreach to industry has been jarring for some, particularly because the FAA’s pro-airline sympathies have long riled critics. But that hasn’t stopped her from bonding with Carol B. Hallett, president of the Air Transport Assn., which represents the nation’s major carriers. And in her speeches, Garvey promises to work closely with industry. “Excuse me, but that’s not the problem,” says Mary Schiavo, a former Transportation Dept. inspector general who quit in 1996 in protest over lax standards at the FAA.

Nevertheless, Schiavo credits Garvey with fighting strong headwinds that make any change at the FAA difficult. To help clear more cobwebs, Garvey hopes to name a deputy later this summer. “You’ve got people there burrowed in the hallways,” says one industry observer. And they’ve outlasted many previous FAA heads who failed to shake up the place. Good thing Garvey has four years left. She’ll need every minute.

By Lorraine Woellert in Washington

People



ENTREPRENEURS

BILL GROSS, ONLINE IDEA FACTORY

He has created 20 cyber-startups. One even makes money.

Bill Gross wants to start an Internet record label. It’s only the germ of an idea, and he’s not quite sure how to go about it. But the 39-year-old Californian is convinced there’s money to be made by signing up artists, paying them huge royalties, and selling their songs as files that can be downloaded over the Internet—cutting out the traditional record companies and distributors.

It’s a wild-eyed scheme—and just the sort of radical concept that has propelled Gross into the front ranks of the Net revolution. In the past two years, Gross has raised more than \$250 million

for his privately held idealab! and a score of Net ventures. Working out of offices in trendy Old Pasadena, Gross has spun off 15 little operations as his own independent businesses, each with its own CEO, board, and investor group. “I run an idea factory,” says Gross, whose previous startup was Knowledge Adventure Inc., the children’s software maker he sold to Candiant Corp. for \$100 million in 1997.

So far, only one of his 20-odd startups is in the black. But many of them show strong promise. idealab!’s CitySearch is the leading operator of local Internet city guides. As measured by advert

"Finding color printers that fit our needs is my number one goal."

BURT GILNER
SENIOR MIS DIRECTOR
MIAMI DOLPHINS

COLORFUL PEOPLE FOR LEXMARK

THE RIGHT PRINTER IS THE ONE THAT WORKS WITH YOUR GAME PLAN. WHICH IS WHY WE CREATED THE LEXMARK OPTRA™ COLOR FAMILY OF PRINTERS. FOR THOSE WHO WANT TO PRINT FAST, WE CAN PRINT UP TO 12 PAGES A MINUTE. AND IF YOU WANT TO PRINT WIDE, WE CAN DO THAT, TOO. ALL AT A RESOLUTION OF 1200 DPI QUALITY, WITH FEATURES THAT MAKE HOOK-UP AND NETWORKING EASY. AT PRICES AS LOW AS \$449.* THE FACT IS, WE'VE GOT A PRINTER TO FIT YOUR BUDGET, YOUR PEOPLE, YOUR NEEDS. EXACTLY.

YOU TOLD US YOU WANT TO PRINT QUICKLY, CLEARLY, EASILY AND INEXPENSIVELY—JUST AS YOU DO IN BLACK & WHITE. WITH THE BRILLIANCE OF VIVID COLOR. SO OUR OPTRA COLOR FAMILY DOES JUST THAT. CALL 1-800-LEXMARK (1-800-539-6275) OR VISIT US AT WWW.LEXMARK.COM/S/ TO SEE HOW THE OPTRA COLOR FAMILY SCORES AGAINST THE COMPETITION. *EXACTLY WHAT YOU WANT...IN PRINT.*

LEXMARK

© 1998 Lexmark International, Inc. All rights reserved. *Estimated street price. Prices may vary. Lexmark, Lexmark with diamond design, and Optra are trademarks of Lexmark International, Inc. registered in the United States and/or other countries. Other trademarks are property of their respective owners.



revenue, it has an estimated 50% market share. That has placed CitySearch in front of such formidable competition as America Online Inc.'s Digital Cities and Microsoft Corp.'s Sidewalk. Other hot prospects for idealab! include eToys, cooking.com, tickets.com, and search engine GoTo.com. "One success will probably fund this place forever," Gross insists.

There have been a few flops, too. But Gross is too busy thinking up his next project to worry much about those. The wiry, bespectacled CEO comes up with most of his own ideas. And as he races around the angular idealab! offices in blue jeans and sneakers, looking every bit the geek he professes to be, he fires off questions at everyone in his path. But Gross is no micromanager. "idealab! comes from my own self-realization that I don't like managing the details when a company is up and running," says Gross. For that, he has relied on others, including his brother, Larry, 36, who still runs Knowledge Adventure. Says Larry of his brother: "He has always been the creative idea person, and I executed those ideas."

"TOTAL RIP-OFF." Long before the Internet was imagined, Bill was hatching business schemes. In junior high school, he figured he could buy candy bars at a drugstore for less than what they sold for at the school cafeteria. So, he opened up for business out of his locker. In high school, he came up with a solar energy gadget. Tiny ads in the back of *Popular Science* produced enough revenue to help pay for much of his education at the California Institute of Technology. There, he designed and produced loudspeakers in the school's workshop and began selling them around campus.

Before his 1981 graduation, Gross started GNP Loudspeakers Inc. (the initials stand for Gross National Products). While Caltech

students turned out loudspeakers, Gross, fiddling with his personal computer, came up with an idea for an accounting add-on for the popular Lotus 1-2-3 spreadsheet. So he started a software company, GNP Development Corp., with brother Larry. By the time sales reached \$1 million, giant Lotus Development Corp. had taken note of GNP's look-alike packaging—and sued. "It was a total rip-off of the Lotus box," concedes Gross, then 23.

But Gross won over his foes by pointing out that anyone who bought his template had to buy 1-2-3 to use it. Lotus dropped the suit after Gross agreed to change the packaging. Then, in 1985, Gross sold Lotus President Mitchell D. Kapur on a program that vastly simplified using the spreadsheet program. This time, Kapur bought the company for \$10 million and funded the Gross broth-

BILL GROSS

BORN 1958 in Tokyo. Grew up in Ft. Lee, N.J., and Encino, Calif.

EDUCATION B.S., 1981, in Engineering & Applied Science from California Institute of Technology

MOST SUCCESSFUL STARTUP Knowledge Adventure, sold in 1997 for \$100 million to Cendant Corp.

MOST DISAPPOINTING STARTUP ideaMarket, a much-ballyhooed site for business reports and software that's now closed down

HOW HE GETS HIS IDEAS From watching how his children learn, through voluminous reading, and "by juggling a lot in my head"

FAVORITE RECENT BOOK *Mastering the Dynamics of Innovation* by James Utterback

HARDEST LESSON "To learn not to do what I don't like doing and therefore am not good at"

FAVORITE STATISTIC The low cost of gaining a customer on the Web. His target: less than 10¢

FAMILY Divorced. Two sons: David, 11; Andrew, 3

INTERESTS Reading, painting, listening to music

eToys

ans
wers

ers to develop a slew of new products.

In 1990, Bill, who copies the paintings of Old Masters brushstroke by brushstroke and gives them to friends, wanted to take a year off to paint. He wanted to study sculpting. He even wanted to write a symphony. Instead, with plenty of time on his hands, Gross became fascinated by observing how his 5-year-old son, David, explored the world and learned on his own. In 1991, Gross founded Knowledge Adventure, which

quickly grew to become the third-largest publisher of children's software.

Knowledge Adventure also taught Gross an important lesson about himself: that he was better at starting companies than running them. "I love the inventive part, but I wasn't paying attention to the details of making a profit," he says. In 1995, he turned control of the company over to Larry. "Had Larry not stepped in and run the company, I don't think it would have survived," says of former board member.

LOYAL BACKERS. Making good on a 1995 New Year's resolution to do "what I enjoy and what I do best," Gross launched idealab!, backed by such investors as director Steven Spielberg, Compaq Computer Chairman Benjamin M. Rosen, and former AT&T executive Robert M. Kavner II. Despite its proven record, idealab!'s supporters remain squarely behind Gross. "If he's involved with it, I want to invest in it," says Spielberg.

who is in talks with Gross on developing KidsCo Line, another idealab! company.

Others, however, aren't so sure. "idealab! is a good idea, but I'm still waiting for some sign of success out of the company," says Kate Delhagen, an analyst at Forrester Research Inc. in Cambridge, Mass. Adds Patrick Keane, analyst at Jupiter Communications in New York: "Looking at the companies he's incubated, they haven't set the world on fire."

Indeed, Gross has had to pull the plug on three sites, including ideaMarket. The information store closed after 13 of 14 employees quit when they couldn't agree on what to sell. Another idealab! venture, shopping.com, is under a Securities & Exchange Commission investigation for possible stock manipulation by its underwriters. "It's not to go public too soon," explains Gross.

For Gross, such embarrassments are just part of the cost of doing business on the cutting edge of Net commerce. He has high hopes that he'll soon be funding—possibly from Spielberg's Dreamworks SKG—for his Internet music label. In the meantime, Gross may be able to draw some inspiration from his own opus, *Secrets of an Entrepreneur*, which promises to "help you persuade potential investors to part with their money." And on that subject, Gross has no shortage of ideas.

By Larry Armstrong in Pasadena, Calif., with Ronald Grover in New York City

ideaMarket

SIEBEL FOR CALL CENTERS: RAPID DEPLOYMENT FOR RAPID RETURN



John White
Chief Information Officer
Compaq Computer Corporation

"CALL CENTERS ARE **CHANGING** THE WAY **COMPAQ** DOES BUSINESS AND
SIEBEL IS CHANGING THE WAY BUSINESSES **DEPLOY** CALL CENTERS."

COMPAQ

When Compaq made the decision to change their market strategy with a world-class call center, we called Siebel Systems. Because Siebel offers the full functionality and powerful computer telephony integration today's call center solutions demand. And only Siebel's Rapid Application Deployment methodology ensures full system production in as little as eight weeks. The result? Compaq's call center went live only two months after making that call to Siebel—and we've been increasing revenue ever since. To find out how a Siebel call center solution can help you change the way you do business, call 1-800-720-3115, ext. 9190 or visit Siebel at www.siebel.com.

SIEBEL
Sales • Marketing • Customer Service

ANTITRUST

ODDSMAKERS BET ON BILL

Why Justice may not win more than a token victory

It is a Herculean legal challenge. The target of the most important antitrust suit in two decades, Microsoft Corp., has been given just 16 weeks to prepare its defense, less than it would probably get if someone slipped on a banana peel in the headquarter's parking lot. That means that instead of burying opposing lawyers in paperwork—a typical tactic of big companies under attack by the Justice Dept.—Bill Gates's troops are going to have trouble just keeping up.

In spite of that tremendous pressure, antitrust experts like Microsoft's chances. Now that legal tea-leaf readers have had a chance to analyze the government's suit, observe both sides' trial tactics, and study the jurists who will be reviewing the case, they are beginning to conclude that Justice and the coalition of 20 state attorneys general suing the software giant will have a hard time winning anything more than a token victory.

The easy part for the trustbusters will be outlawing Microsoft's exclusive deals with business partners. But it will be much harder to stem the company's most controversial practice: bundling important new software products, such as Internet browsers, into the ubiquitous Windows operating system. On that point, the government team may be on shaky legal ground. "The big issue here is whether Microsoft is obliged either to take its Internet Explorer out of its Windows operating system or to carry Netscape's product. Those, I believe, would both be radical moves that courts are unlikely to accept," says antitrust

professor Ernest Gellhorn of George Mason University School of Law.

The biggest obstacle for Justice lawyers will be the jurists who have the last word: the members of the District of Columbia appeals court and the U.S. Supreme Court. Dominated by economic conservatives, these courts are likely to be skeptical of claims that it's illegal for Microsoft to improve its operating system by enhancing it with Internet-browsing capability. In several recent cases, federal appeals courts have said that "where high-tech issues are concerned, 'we should not be determining good innovations and bad innovations,'" says antitrust lawyer Stephen M. Axinn of New York's Axinn, Veltrop & Harkrider.

HELPFUL HINTS. An early bombshell from the District of Columbia appeals court is possible sometime in the next few weeks. Judges A. Raymond Randolph, Patricia M. Wald, and Stephen F. Williams are reviewing U.S. District Judge Thomas P. Jackson's December injunction prohibiting Microsoft from requiring computer makers that sell Windows 95 to install Internet Explorer. The company has high hopes that Randolph, Wald, and Williams will not only overturn the injunction but also give Jackson clear instructions to reject some of the government's untested legal theories in the Windows 98 lawsuit.

With good reason. In a little-noticed ruling on May 12, Randolph, Wald, and Williams strongly signaled that they're against government meddling in computers' innards. Granting a technical motion sought by Microsoft,



U.S. VS. MICROSOFT

Microsoft's strategy:

DELAY Although Microsoft says it's to meet the September trial date, experts expect it to try to drag out the case, both to give its lawyers more time and to boost sales of Windows 98.

DEFEND INTEGRATION Microsoft's strongest argument is that wrapping Internet Explorer into the operating system makes sense. It's technically sound, appeals to consumers, and is inexpensive.

GO TO HIGHER COURTS The appeals courts reviewing the Win98 suit, all the way up to the Supreme Court, are expected to be hostile to the government's case.

GATES WITH COUNSEL NEUKOM AT A PRESS CONFERENCE IN MAY

the trio warned that judges should not put themselves in "the unwelcome position of designing computers." According to antitrust scholars, this was clearly intended to warn Judge Jackson not to second-guess the company's decision to embed Internet Explorer in Windows. Of course, Randolph, Wald, and Williams won't necessarily have the last say. It's likely that, if the parties don't settle first, the suit could be pursued all the way to the Supreme Court. Counting up the votes, court watchers figure the government would probably have a rough time with the high

THE ROAD AHEAD

The Justice Dept. wants to wrap up this case quickly, but it could take more than a year before a final decision is rendered, especially if the Supreme Court agrees to review the lawsuit. Here's a likely timetable:

COURT DATE	LIKELY DECISION
U.S. DISTRICT COURT	FALL, 1998
DISTRICT OF COLUMBIA APPEALS COURT	SPRING, 1999
U.S. SUPREME COURT	SUMMER, 2000



Justice's strategy:

KEEP UP PRESSURE The less time Microsoft has to prepare for trial, the harder it will be for attorneys to mount a strong defense.

FOCUS ON INTENT Internal E-mail indicates Microsoft may have bundled Internet Explorer into Windows to put Netscape out of business, undermining claims that it acted to help customers.

SEEK SIMPLE REMEDIES Courts want to stay out of the computer business. If trustbusters try to redesign Win98, they're likely to lose.

KLEIN WITH BOIES, LEFT, AND MICROSOFT TRIAL TEAM

ING UP THE TWO GAME PLANS



, too. At least five of the nine Justices—William H. Rehnquist, Antonin Scalia, Clarence Thomas, Stephen G. Breyer, and Ruth Bader Ginsburg—demonstrated a consistent free-market tilt in their antitrust rulings. Stephen Calkins, an antitrust expert at Wayne State University. In spite of its strong long-range legal effects, Microsoft's attorneys still face a long and costly trial. Judge Jackson denied the company's request for seven months to prepare its case and is doing everything in his power to ensure that trial begins

on the scheduled date of Sept. 8. In a public hearing on June 9, he commanded the two sides to limit themselves to no more than 12 trial witnesses—an extraordinarily low number for a case of such complexity.

Already, the software maker's legal team is complaining that the feds and state AGs have been slow to turn over critical documents. (They deny the charges.) Although the company is publicly saying it can meet the September trial date, most legal experts expect its lawyers to try to delay the case, both in order to buy time for its legal team and

to sell as many copies of Windows 98 as possible. "Their strategy has to be to keep [the lawsuit] going as long as possible," says Brookings Institution's Robert E. Litan.

The accelerated trial has one benefit for Microsoft. State attorneys general are likely to drop charges that it used predatory tactics to promote its Office software suite. Because the legal issues surrounding Office don't appear in the Justice case, "it just may not be possible to fit [the Office allegations] in," says New York State Assistant Attorney General Stephen D. Houck.

Once the trial is under way, a key challenge for both sides will be persuading Judge Jackson to accept their interpretation of what legal test applies to Microsoft's behavior. The company will argue that the feds first must prove that Microsoft's only reason for putting Internet Explorer into the operating system was to cripple rival Netscape Communications Corp. and then show that there was no technological justification for this move. Justice's antitrust chief, Joel I. Klein, and his team will seek a more relaxed standard. They'll say they only have to demonstrate that hurting Netscape was one of the company's primary goals and that Internet browsers should logically be viewed as stand-alone software.

"IN THE BAG." Whichever legal test the judge applies, the case will ultimately turn on two key factual issues: whether Microsoft integrated Internet browsing into Windows 98 for anticompetitive reasons and whether consumers will benefit by the move. After having spent nearly two years investigating the matter, the feds already have plenty of evidence on both issues, much of which has appeared in the department's legal filings against Microsoft. "Their case is already in the bag," says Samuel Miller, a San Francisco antitrust attorney who was part of the Justice team that investigated Microsoft in the early 1990s.

The side that has to put in some all-nighters is Microsoft. To disprove the government's claim that its main goal was to drive Netscape out of business, Microsoft is likely to dig up internal documents such as consumer surveys, focus-group reports, and memorandums from its sales force showing that customers wanted the products integrated. Microsoft employees will probably be enlisted to testify that the company planned to bundle Internet functions into the operating system long before Netscape was even founded in 1994.

Because much of Justice's argument is built on internal E-mail, Microsoft is

SOFTWARE

NETSCAPE'S SECOND WIND

A major coup has given it a push in the E-commerce market

also likely to contend that most of the damaging electronic missives were just idle words of low-level employees that are being taken out of context. Additionally, Gates's team will challenge charges that Microsoft proposed splitting up the browser market with Netscape in a controversial June, 1995, meeting. Expect defense lawyers to try to skewer Netscape's Marc Andreessen, whose notes are prime evidence of Microsoft's misbehavior.

To fight government claims that its Internet browser shouldn't be bundled with Windows, Microsoft is likely to argue that integration makes technological sense. It will do this by telling the familiar story of how memory management, printer drivers, graphical user interfaces, and other once independent software features have been integrated into the operating system over the years. Thus, lawyers will say, Internet Explorer is simply an incremental improvement to Windows, not a distinct technology to be marketed separately.

Leading the Microsoft trial team are General Counsel William H. Neukom and John Warden, a veteran trial lawyer and partner in New York's Sullivan & Cromwell. Warden will square off against celebrated courtroom warrior David Boies, who runs a small litigation boutique in Armonk, N. Y., and is working for Justice at a discounted salary of \$101,000 per year. One New York litigator who knows Boies and Warden says they'll bring two sharply contrasting styles to trial. Warden is a predictable "straight-ahead litigator," he says, whereas Boies is more likely to use offbeat legal theories and "comes at you from all sides."

PRECEDENT. Although settlement talks between the two sides broke down last month, they're likely to make at least one more stab at a deal. Certainly, Microsoft has a strong incentive to do so. Any findings made against the company in the current case—that it has a monopoly, say, or engages in predatory tactics—could be binding on future courts considering the same issues. That could spur private companies that believe Microsoft has mistreated them to sue.

Right now, no deal is in sight. While Microsoft is making small moves to end its controversial contractual practices, it's unlikely to give up what it considers its right to determine what software should go into Windows. And given how difficult it will be for the government to prevail on that point, the company has little incentive to surrender on the issue. Meanwhile, both sides continue to prepare for war.

By Mike France in New York, with Steve Hamm in San Mateo, Calif.

James L. Barksdale, chief executive of Netscape Communications Corp., just invested \$7.3 million of his own cash in his company—the first time the 56-year-old executive has added to the \$100 million-plus worth of stock options he received as compensation. Why the sudden affection for Netscape shares? For the first time in months, Barksdale has something to crow about: He pulled off a major coup in May, persuading Citibank to spend more than \$20 million on Netscape software for its online financial-services empire.

Not only is this Netscape's largest deal ever, but it comes at a crucial time for the four-year-old Internet pioneer. Since December, Netscape has reported \$142 million in losses, laid off 400 people, and watched its stock price sink to the mid-teens. It's now trading around \$24 per share, but still 70% off its peak. The Citibank deal—coupled with a surprising break-even second quarter—is a much needed dose of good news for the embattled company. "I feel much better about them now," says Hambrecht & Quist analyst Daniel H. Rimer, who has upped his recommendation on Netscape's stock from "hold" to "buy."

PORTAL PLANS. While some analysts are taking Netscape off the critical list, it's too soon to check it out of the hospital altogether. The \$534 million company's effort to transform its corporate Web site into an Internet portal for consumers places it in the path of powerhouses Yahoo! Inc. and America Online Inc. Even more crucial to Netscape's future, its corporate software and services business pits it against the likes of computing giants IBM and Microsoft Corp. Indeed, the company

will live or die in the so-called enterprise market, which generated \$96.1 million of its \$127.2 million in revenues last quarter. Says SoundView Financial Group analyst Kris Tuttle: "It's an uphill battle in the enterprise."

Barksdale's battle plan: to keep the momentum going by landing more big software deals. He figures Netscape has an edge because it can offer both the software tools that companies need

BARKSDALE:

He's aiming for more partners like Citibank



ld online businesses and the portal—Netcenter—that can distribute their products and services. “The unique opportunity we have is to put these two things together,” says Barksdale. “It’s a boom that makes the Net economy off.”

The Netscape sales pitch now starts with a handful of new products stemming from its acquisitions last year of a Software Corp. and Actra Inc. These include E-commerce software and a so-called application server program that can handle high-volume Web sites. E-commerce software is expected to grow from a \$235 million U.S. market last year to \$3.8 billion in 2002, according to Forrester Research Inc.

But in targeting E-commerce, Netscape is going after a market that its formidable rivals also covet. IBM, for one, has marshaled its considerable resources—including its 20,000 sales people and a \$100 million ad campaign—and Internet commerce. Big Blue is

also planning on throwing its support behind Apache, a popular—and free—Web server program. And Microsoft is pushing its Windows NT operating system and BackOffice server software as a platform for E-commerce applications. Retailer Eddie Bauer Inc., for example, uses Microsoft’s software to power its online store, even though executives say the software is not necessarily the best. “We have confidence they’ll continuously improve and support it,” says Judy Neuman, Bauer’s vice-president of interactive media. “I know Microsoft will be here in 10 years.”

That kind of confidence is critical in the corporate market—and something Netscape, as a relative newcomer, will have to build. Even Microsoft is still working on it. “Being an enterprise provider is tough,” says Richard Tong, Microsoft’s vice-president for applications marketing. “You can spend \$1 billion and not make much progress.”

Netscape doesn’t have a billion to spend. It has no debt, \$237 million in the bank, and deferred revenues of \$139 million. But that pales in comparison with Microsoft’s \$12 billion war chest. Microsoft’s riches give it another edge: It can bundle for free basic Internet software with NT and BackOffice, while Netscape charges for similar programs.

Without a huge cash hoard, Netscape is applying a laser-like focus to its business. Citibank is the prototype customer. It chose Netscape as its Net software supplier for a range of E-commerce tasks involving home and corporate banking, such as a system that allows corporate credit card customers to get statements online. One plus: Netscape embraces industry standards. “We believe they’re a strong company and they’ll turn their business around,” says Leon Williams, an executive in Citibank’s Advanced Development Group.

Netscape’s own Netcenter site serves as a showcase for its software products—plus a chance to turn its 8 million visitors a day into online customers for Citibank and other Netscape partners. In the next six months, Netscape

In the enterprise market, too, Netscape is in a tricky position of having to sell products Microsoft can give away

plans on adding a host of services—from office supplies and corporate travel services to trading communities for industries such as health care or auto parts. Almost everything will be run by partners, with Netscape serving as an aggregator that collects a slice of their ad or transaction revenues.

“It’s going to be a place

where you can easily find people to do business with,” says Netscape Senior Vice-President Marc Andreessen.

DOING TOO MUCH? The power of the business portal isn’t lost on early Internet users such as Federal Express Corp., Barksdale’s former employer. FedEx has a shipping and order tracking service on Netcenter in addition to its own site. Now, it’s considering buying Netscape’s E-commerce application server, and directory products—and may expand its service offerings on Netcenter. “Net-scape’s vision is right. They’re not just planning their future around the browser,” says Robert Carter, chief technology officer for parent company FDX Corp.

Wall Street is nodding its approval, too. Analysts say the company has survived its crisis and has put together a sound business plan. They expect Netscape to lose money in the current quarter and then start eking out tiny profits—finishing the fiscal year in January with a net loss of \$52 million, according to Zack’s Investment Research. Fiscal 1999 looks better. Mary A. McCaffrey of Bankers Trust New York Corp. predicts \$721 million in revenues and net income of \$23 million. “It’s an execution issue now,” she says.

Still, some observers fret that Netscape is spreading itself too thin. Forrester Research analyst Ted Schlader says Netscape should sell off its potentially valuable consumer portal and concentrate on a business-to-business site. “They’re trying to do too much with one portal and that doesn’t help them gain credibility in the enterprise,” he says.

Barksdale is determined to make the two businesses fit together. Besides, he figures he doesn’t need to vanquish giants such as IBM or Microsoft to succeed in an Internet software and services market that is expected to top \$20 billion in the next half decade. “I’ll take 10% of that,” Barksdale quips. Easy to say. Now he’s got to do it.

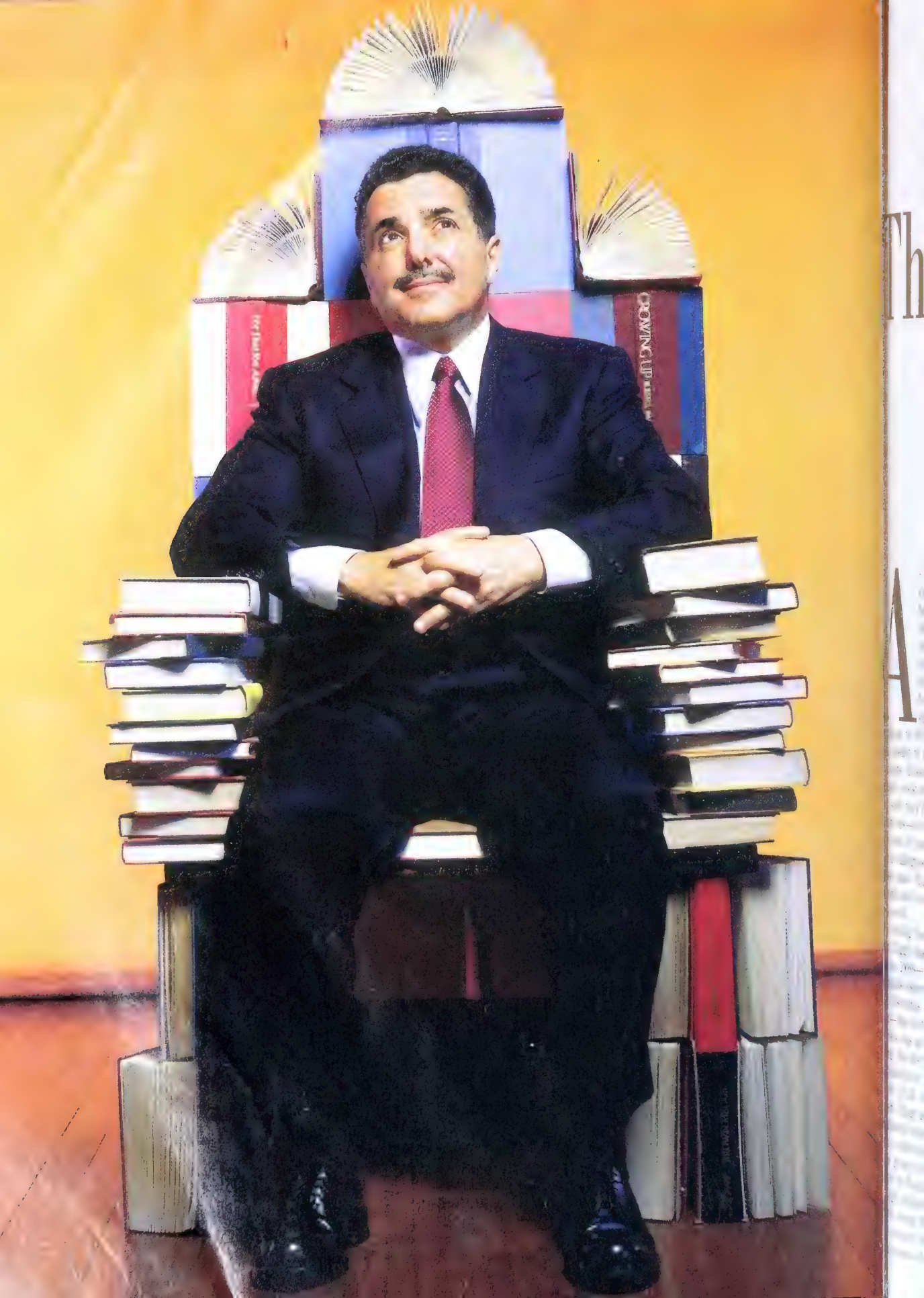
By Steve Hamm in San Francisco, with bureau reports

NETSCAPE'S STRATEGY FOR CORPORATE BUSINESS

NEW PRODUCTS Joining its flagship SuiteSpot, a basic Web-site management suite, are software for handling E-commerce and running Web applications and a directory for managing resources and E-mail addresses on a network. This so-called enterprise software accounted for 60% of its \$127 million in revenues in the second quarter.

NETCENTER Netscape plans on parlaying its heavily trafficked Web site into a business portal with everything from corporate travel offerings to trading centers for such industries as health care and auto parts. Its Netcenter site, currently focused on consumers, contributed 24% of revenues in Q2.

PROFESSIONAL SERVICES Its staff of consultants has grown from 90 to 250 in a year and now contributes 16% of revenues. In addition, Netscape is working closely with giant systems integrators like KPMG and Ernst & Young.



The BARON Of BOOKS

As Leonard S. Riggio, chief executive of Barnes & Noble Inc., tours his chain's newest outpost, near Atlanta, no detail escapes his notice. He proudly points to features he championed, from cathedral ceilings designed to bring a feeling of grandeur to bookbuying to handpainted floors meant to make the store look less corporate. Passing the public bathroom, he can't resist a swipe at the detractors who said they'd become a pit stop for drivers—of which his father was one. Riggio's kind of marketing savvy combined with a willingness to break the rules have made Riggio, 57, one of the most powerful and controversial figures in the world.

For selling books the way Home Depot Inc. sells two-by-fours, Riggio has dragged his industry kicking and screaming through the 1990s—and he has loved doing it. Between swigs of double espresso, he gleefully recounts the changes—from deep discounts to Sunday hours to yes, even public restrooms—that he foisted on a reluctant industry. “The bookstore business was an elitist, stand-offish institution,” says Riggio, during the first extensive interviews he has ever granted for publication. “I liberated it from that.”

Most of all, he made bookstores fun, turning them into urban village greens where people flock as much for the environment value as the huge selection. “He was the first to understand that the store is a stage and that retailing is great theater,” says Leonard Berry, director of the Center for Retailing Studies at Texas A&M University. Riggio relishes the role of the populist who proved the critics wrong. He seems to feed on controversy and will eagerly recount stories from years earlier of himself telling off naysayers—from publishers to competitors—to stuff it. Al-

**Barnes & Noble's
Leonard Riggio
says his megastores
have “liberated” a
hidebound
industry. If
smaller rivals
perish, so be it**

though he cheerfully admits that he reads little and could just as easily have ended up selling housewares or hand tools as books, that need to defy convention made him uniquely suited to reinventing the hidebound world of books.

In the course of doing just that, Riggio has climbed from bookstore clerk to head of a near-ubiquitous retail chain that rings up one in eight books sold in America. With 483 Barnes & Noble superstores and 528 mall-based B. Daltons, the company inked sales in the year ended in January of \$2.8 billion, over double the total four years ago. That's more than its nearest competitor, Borders Group Inc., more than any book publisher including Random House Inc.—and it approaches all the independent bookstores combined.

Now, after years of rapid expansion, Barnes & Noble is also beginning to rack up some solid profits. After going public in 1993, the stock languished for three years because of low margins and erratic earnings. But with the pace of expansion slowing and the benefits of a new distribution center kicking in, Barnes & Noble for the first time posted four consecutive quarters of operating earnings last year. For the fiscal year ended in January, it earned \$147 million on operations, up from \$120 million the year before. That success sent the stock soaring from \$13.50 in late 1996 to a recent \$35.

COURT CHALLENGE. But with dominance has come controversy, and not just because of Riggio's abrasive style. America barely blinked when Circuit City Stores Inc., Toys 'R' Us Inc., and other so-called category killers consolidated their industries. Books, though, are different. “The reason the Constitution guarantees freedom of speech and not freedom to purchase rubber bands is that the health of culture depends on the availability and the diversity of ideas, not on the availability of rubber bands,” says Todd Gitlin, a professor of culture at New York University. “Leonard Riggio wields im-

PHOTOGRAPH BY JEFF ALLEN

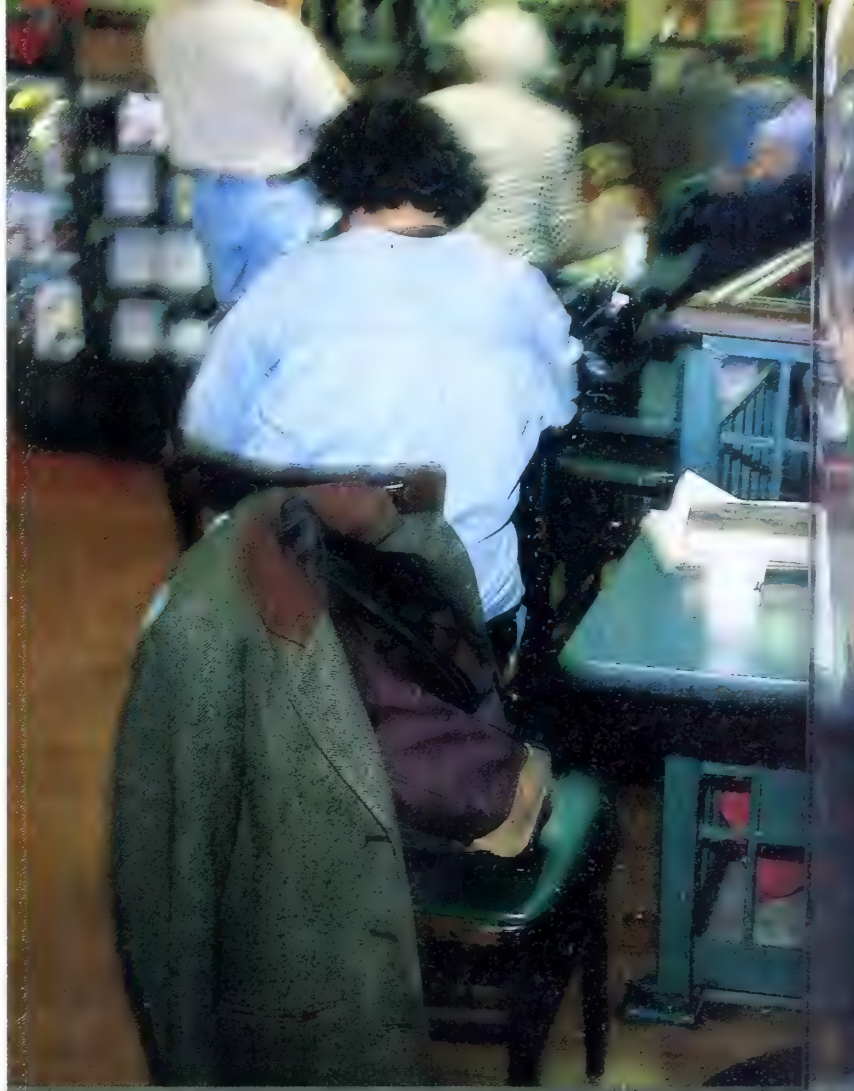
mense power over the long-term health of our culture."

Indeed, a simple decision by the mighty chain to buy or not to buy, to display or not to display, can make or break a new book—particularly one by a little-known author. That terrifies many in the literary world who see Riggio as a number-crunching businessman ready to sacrifice literature to profit. And as the independently owned bookstores that remain the sentimental heart of the business continue to fall under Barnes & Noble's relentless expansion, its power to influence what America reads will only increase.

Now, the independents are preparing to fight back in court. In April, the American Booksellers Assn., which represents 4,047 independent bookstores, filed a broad-based lawsuit against Barnes & Noble and Borders in federal court, alleging that the chains coerce publishers into giving them secret and illegal deals. Both chains deny the charges. Riggio says the idea that his business is predatory is a misperception. "If you read *The New York Times*, you'd think we were killing culture," he complains as he tours the Atlanta store. "I have to come here and look around to remind myself that we're giving the world a gift. It gives me goose bumps to remember what we're doing."

Behind the bluster is a man far more complex than the profit-driven philistine his critics depict. Riggio reveals himself to be a surprising mix of liberal idealism and market-driven expedience. He has become a symbol of Big Business, yet he considers himself an entrepreneurial champion. He is accused of stifling free speech, but even foes laud him for tough stands such as his defiance of an April subpoena from special prosecutor Kenneth Starr seeking the book-buying records of Monica Lewinsky. He can be prickly and foul-mouthed, but he is also funny, philosophical, and generous—a major donor to the arts and the Democratic Party. "For the tough-guy image from Brooklyn, there is another side," says Jonathan Newcomb, chief executive of Simon & Schuster Inc.

MIXED REVIEWS. Although Riggio and his chain remain controversial, a revised view of his effect on the book world is beginning to emerge. There's a growing recognition that the dire predictions about the fate of literature in a Riggio-dominated book world have not come to pass. Critics have fueled a perception of Barnes & Noble as little more than a conduit for fad books and best-sellers, but in reality, it offers a greater selection than most independents. Indeed, best-sellers accounted for just 3% of sales last year—about the same as most other bookstores. Barnes & Noble was supposed to stifle small presses, but some of those publishers say the chain's vast shelf space and centralized buying has helped them. "The idea that they are somehow damaging literature is not true," says Morgan Eltrekin, publisher of Grove/Atlantic Inc. "They have leveled the playing field."



RELAX, ENJOY: Browsers are encouraged to grab a cup of coffee,

Yet Riggio says his revolution has just gotten started. He foresees adding 500 more supersize Barnes & Noble stores over the next decade. He has plans to build his fledgling online venture into a powerhouse promotional channel that will generate interest in books—and his bookstore. He's also beginning to think about new ways to apply his merchandising prowess. In August, he'll open a 3,500 square foot prototype magazine store called Ink in a mall in Meriden, Conn. He says the venture will start small—three to five stores by October, with no more than \$10 million in revenues by 2000. Further out, Riggio, who is an avid art collector, talks about opening cavernous art stores that will display everything from posters to original works.

With his street-smart style, Riggio seems an unlikely tycoon in the genteel world of bookselling, yet he sits atop a portfolio of businesses with total sales of \$4 billion. Besides his 25% stake in Barnes & Noble, worth \$600 million, he owns 9% of Barnes & Noble College Bookstores Inc., which, with sales of \$800 million, operates stores

LUCK OF THE DRAW

"If I got a job at a hardware store, I would have been Home Depot today"





before deciding what to buy

ampuses, and sizeable stakes in other businesses. Riggio, who has three daughters, lives with his second in a sprawling apartment on Manhattan's Park Avenue. The family spends weekends at a baronial estate in Bridgehampton, N. Y., where friends say dinner guests often include celebrity friends from Riggio's youth. "Lenny actually escapes celebrities," says Angelo Volpe, president of Tennessee Technological University and a childhood friend. "He prefers hanging out with boys from the old neighborhood." Volpe is referring to the predominantly Italian neighborhood in Brooklyn where Riggio grew up in a home packed with grandparents, aunts, and uncles. His father was a prize-winning, good enough to beat Rocky Graziano twice before retiring to drive a cab. Riggio, who returns occasionally in his 30s to visit his mother, has stayed close to his roots. His 30-year-old brother, Steve, is his vice-chairman, charged with running the online business. Jimmy, 47, owns a part interest in a freight company that hauls books for Barnes & Noble. "My nationality is New York City," he says. "I don't mean I'm a New Yorker like *The New York Times* is a New Yorker. I mean it in the Horatio Alger sense."

TALK. It is one of many jabs Riggio takes at the media, which he says has stereotyped him as a hothead. "I'm not a hothead," he says, angrily pounding a fist on the table. "I know who started those rumors?" He launches into a tirade about a publishing exec who wanted to cut Barnes & Noble's discount by 2%. "I asked him whether he wanted to go through the door or the window," says Riggio heatedly.

Riggio is most offended by the frequent comparisons with his father's fight career, saying that his father, who died in 1982, was no brawler. He taught his son that being a quick thinker was just as key as having a knockout punch. "This was about not taking hits," says Riggio. "He was a genius, the most inspiring person on the face of the earth."

Riggio's first real experience outside the neighborhood was when he entered selective Brooklyn Technical High School at age 12. "High school was the first exposure I had to Jewish people, Asians, Hispanics, black people," he recalls. To fit in, he became a class clown, the guy who lured teachers through doorways just as a glob of food was set to fall. "He'd do anything to get a rise out of you because he was a little guy," says William Sheluck Jr., a classmate and retired banker who sits on the Barnes & Noble board. But this is also where Riggio first displayed an intense competitive drive. Despite his short stature—Riggio stands just 5 foot 7 inches—he made the basketball team by shooting hundreds of foul shots on his own. "Brooklyn Tech shaped me more than anything," he says. To show his thanks, he gave the school \$1 million in March and vowed to raise \$10 million more.

Riggio went on to New York University where he studied engineering at night. But his real education came from his day job at the college bookstore. It was chance, not a love of literature, that landed him there. "If I got a job at a hardware store, I would have been Home Depot today," he says.

In 1965, at age 24, Riggio, with \$5,000 in savings and loans, opened a competing bookstore. "He told me he could do it better and faster," recalls his old boss, Al Zavelle. Pas-

sionately interested in politics, Riggio installed a mimeograph machine in the basement so students could copy anti-war literature. "He saw his role in the world to get progressive ideas across," says Tibor Kalman, a well-known designer who worked at Riggio's Student Book Exchange. Riggio, who served as campaign finance chairman for New York City Mayor David Dinkins in 1993 and gave more than \$138,000 to the campaigns of Dinkins and New York Governor Cuomo in 1993 and 1994, has remained politically involved.

As his student bookstore thrived, Riggio, who never finished college, grew restless. In 1971, he talked bankers into lending him \$1.2 million to buy Barnes & Noble, an ailing century-old bookstore on lower Fifth Avenue. Riggio brought it back to life with a humorous TV campaign and by overhauling management and inventory.

Riggio soon added a giant Sales Annex, creating an 80,000-square-foot store crammed with an odd assortment of used books, remainders, and best-sellers. It would become a laboratory for ideas that he later refined in his national chain. Customers navigated the narrow aisles with shopping carts, picking up books that were sometimes sold by the pound. Still, nobody paid much attention until 1974, when Riggio instituted his famous discounts: 40% off *New York Times* best-sellers; 20% off paperback best-sellers; 10% off hardcovers. "It forever changed the economics of book-

Cover Story

selling," says Simon & Schuster's Newcomb.

Riggio, who has since scaled back the discounts, was willing to take the profit hit to draw crowds to his out-of-the-way store, but competitors feared that discounting would shrink the bottom line for everyone. He recalls a confrontation with J. Alan Kahn, an executive with Dayton Hudson Corp.'s B. Dalton chain, who flew to New York with a report proving that discounts would not work. When Riggio waved the report off, Kahn said: "Don't open in midtown [Manhattan]. Or we'll open a store three times the size with bigger discounts and run you out of f—ing business." Riggio bristled: "Is this message from you? Or are you carrying it for someone else? Because I want to know who I should tell to go f— yourself."

"COMMON ENEMY." Riggio rushed all the faster to open a giant store in Manhattan's Rockefeller Center, in 1976. But he soon hired the tough-talking Kahn for himself. Over the next decade, the pair gradually opened giant Barnes & Noble Sales Annexes around the Northeast that were the forerunners of today's superstores. Then, in 1986, backed by junk bonds from Drexel Burnham Lambert Inc. and a major investment from Vendex International, a Dutch retailer, Riggio bought B. Dalton Bookseller, and became the nation's biggest bookseller.

Cover Story

The acquisition set off alarm bells throughout the literary world. "Chain bookselling means best-selling books will be available everywhere, but it also means that they—and the tapes and the calendars—leave no room for the small-press edition of a minor novel or a university-press edition of an important scholarly work," *The Washington Post* wrote at the time in an article that was typical of the outcry. "The day I bought B. Dalton," Riggio laments, "is the day I became a common enemy."

The Dalton purchase may have put Barnes & Noble on the map, but the chain's course was anything but smooth. Riggio added the Scribner and Doubleday & Co. mall chains in the late-1980s—just in time for a decline in mall traffic, forcing him to start shutting those stores down.



CHILDREN'S HOUR: Barnes & Noble's concept of offering a "village square" to shoppers includes storybook sessions such as this one in Brooklyn

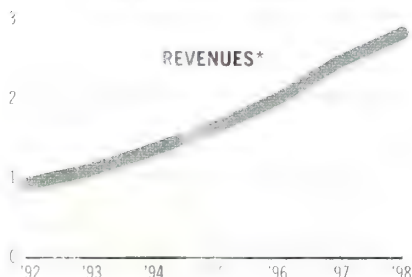
In the midst of that crisis, Riggio began to sense that huge annexes could be refined further to draw a different bigger crowd. Retailers from Circuit City to Toys 'R Us were beginning to dominate their niches with a "big box" formula that combined vast selection with low prices, and already a handful of book chains were experimenting with the same concept. In 1990, Riggio grabbed an early lead by acquiring Bookstop, a Texas-based chain of 24 superstores.

The Barnes & Noble superstore rollout began in earnest in 1991. Riggio erected hundreds of huge, free-standing bookstores of 20,000 square feet or more that were meant to be destinations. He opened on Sundays and created climate-controlled village squares with cappuccino, clowns, cord armchairs, even cooking demonstrations. With plenty of books and trinkets, even people who were intimidated by traditional bookstores felt welcome. "Len Riggio understands how to make these things work as almost everything else America does—as a theme park," says Nora Ephron, a writer and filmmaker whose latest movie, *You Have Mail*, based on the rise of the book superstores, will open this fall.

That, of course, is exactly what Riggio had in mind: a store that would draw customers from every economic and ethnic segment. His favorite Barnes & Noble, a 65,000-square-foot store sprawled over four floors in Manhattan's Union Square,

BARNES & NOBLE IS GROWING FAST...

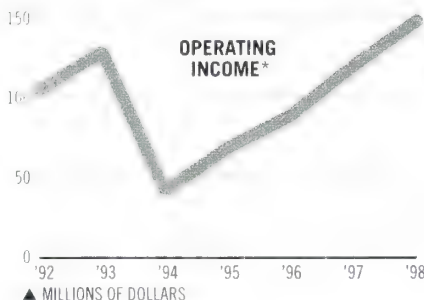
REVENUES*



*1992, YEAR'S END IN JANUARY

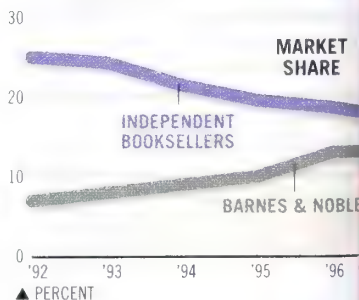
...AND PROFITS HAVE IMPROVED...

OPERATING INCOME*



DATA: BARNES & NOBLE INC., COMMERCE DEPT., BOOK INDUSTRY STUDY GROUP

...AS IT NABS SHARE FROM INDEPENDENT BOOKSELLERS





Who will be King?

It's the crowning moment of the PGA TOUR West Coast Swing presented by Bank of America: the final round of the AT&T Pebble Beach National Pro Am. This event, on August 17, determines the 1998 "King of the Swing," the player atop the PGA TOUR money list at the end of the West Coast Swing. And to be named King, you can't just be good. You have to reign supreme.



Check out the Swing standings on www.PGATOUR.com



Bank of America

presenting sponsor of

PGA TOUR West Coast Swing

Member FDIC.

could be an ad for the classless society. While a man in a business suit lounges on a bench reading the latest Michael Crichton, a homeless German immigrant who calls herself Erika Yvonne sits on the floor, furiously copying from *Revolution of the Mind*, a biography of French surrealist poet André Breton. "At the library," she says, "the air and lighting are bad, and they don't have this nice music."

As Barnes & Noble's giant big-box stores sprang up in cities and suburbs across America, the local independent bookstores fell in droves. Membership in the ABA fell from 5,132 in 1991 to 4,047 today. In 1991, independents sold nearly a third of all books, and Barnes & Noble sold only 6%. Since then, Barnes & Noble's share has more than doubled, while the independents' has fallen nearly by half. And it's not just the chains that are nabbing their business. Nonbook retailers such as discounters and warehouse clubs now account for over half of all books sold. Analysts predict the trend will continue, with Barnes & Noble doubling its share by 2005.

CHOICE DEALS? But has the expansion come fair and square? That's the question at the heart of the ABA suit. Although Riggio and the publishers say he pays the same price for books as everyone else, the independents allege that an array of special deals—from cash discounts and better terms for books returned to the publisher, to better credit terms, price breaks for new stores, and incentive payments—give the chains a substantial advantage. Riggio denies the claims, calling the suit a public-relations ploy. "Our system was based on the principle that we should compete strenuously," he says. Having built an empire from nothing himself, he adds, "I don't shed a tear for the little guy."

But the ABA lawsuit only hints at the broader threat many in the literary world see in the Barnes & Noble phenomenon. Just 35 buyers choose all the titles sold in the chain's 1,011 stores. As the number of independents dwindles, that small group has increasing influence to decide which books are actually available to shoppers. "Having so much control in one company's hands limits the point of view," says Avin Mar Domnitz, executive director of the ABA.

The notion that Barnes & Noble poses a threat to literature has dogged Riggio since he closed the B. Dalton deal and he hotly disputes the charge. He argues that since his superstores carry a vast greater selection—at 150,000 perhaps 10 times the titles in a small store—he's increasing choice, not reducing it. Others are beginning to agree. It was skeptical about the superstore concept when it started says Thomas McCormack, former publisher of St. Martin's Press and columnist for *Publishers Weekly*. His experience in his neighborhood Barnes & Noble changed his mind. "I went into the store on the corner and I find books I would never find without them."

So far, anyway, it's hard to find much evidence of damage done in the numbers. The kinds of books that critics say are put most at risk by superstores are actually holding their own. Sales of art, literature, and poetry books, for example, climbed 10% from 1993 to 1996, compared with 4% for popular fiction, according to the Book Industry Study Group, a research organization.

But the numbers also show little support for the idea often floated by the chains' supporters that they have brought hordes of new readers into the market. Although Barnes & Noble's sales have ballooned, total industry sales have grown less than 5% a year since 1992, according to Verne Sessler & Associates Inc., an investment bank specializing in media companies. "The idea that they democratized bookselling isn't true," says Roxanne Coady, an ABA director who owns R.J. Julia Booksellers in Madison, Conn. However, some publishers say that superstores may have staved off an actual decline. "God knows how dire it would be without the superstore," says Alberto Vitale, chief executive of Random House.

Perhaps the most credible charge against Barnes & Noble is that lesser-known books are apt to get lost amid the glitz. The best independents are small shops owned and staffed by people who love books. They're on the shop floor "hand-selling" books to like to customers who know and trust them. Many of the books they display are ones they've read and loved.

In contrast, the buyers at Barnes & Noble never even see the customers. And many

TASTEMAKER Barnes & Noble's growing power to decide what America reads has terrified many in the literary world

Cover Story



LEONARD S. RIGGIO

BORN Feb. 28, 1941, Bronx, N.Y.

FAMILY Married to second wife Louise Riggio; three daughters, including two from first marriage.

EDUCATION Brooklyn Technical High School. Dropped out of New York University.

HOBBIES Collecting art and wine; cooking.

BOOKS READ LAST YEAR 6

FAVORITE BOOK Kafka's *The Metamorphosis*

PREDICTS THAT in the 21st century, the information glut will force people to pop pills to help empty their minds. "Losing thoughts and forgetting will be the equivalent of shedding pounds and dieting."

ON LEADERSHIP "I have a lot of trouble with the whole concept of leadership. I don't like telling people what to do."

ON RETAILING "Retailers are preachers, teachers. They're searching for adulation and love."

WHY HIS KIDS DON'T WORK IN THE BUSINESS "I don't think being a son or daughter qualifies you to do what your parents do."

GOALS FOR THE SUMMER Launch magazine stores; outline a novel; hit 65,000 chip shots to bring down golf handicap from 16 to 12.



LEONARD S. RIGGIO
1560 84 St.
College Prep.
Prefect Class Pres.,
Floor Manager's Sq.,
WNYE, Intra. Bowling,
Intra. Basketball
College

he books prominently featured in the stores are there cause publishers have paid Barnes & Noble to promote them. "There isn't the word-mouth that builds books that aren't instant phenomena," says Simon & Schuster's Newcomb. "Angela's Ashes didn't start in big books at the front of Barnes & Noble." Frank McCourt's surprise best-seller about his wistful childhood gathered momentum as staffers at thousands of independents across the country talked it up. Once started selling, however, the sales kicked in with explosive force. One quarter of the million copies sold were bought at Barnes & Noble. Riggio describes a similar experience for *Cold Mountain*, the first novel that became a surprise best-seller for Grove Press.

But books that don't develop a best-seller buzz—or don't have a big marketing budget behind them—may have a harder time finding an audience in a superstore, and the stores' sophisticated computers eject slower-moving books at a little as 120 days. "This is fine for big titles," says Colangelo, director of University of Michigan Press. "But for obscure works that need more shelf time, the judgment is too fast."

The fast turnaround also aggravates the problem of unsold books returned to publishers. In recent years, they have received almost half of books shipped as the industry's overall use of shelf space outpaced sales gains. Riggio says that in the past year, Barnes & Noble has worked to reduce its return rate from 28% to 19%, about the same as in independent stores.

COVER. Still, the kind of firepower that helped ignite *Angela's Ashes* has led many in the book community to begin questioning their view of Riggio. Some publishers have come to resent the advent of modern retailing techniques, from sophisticated sales tracking to national promotions. "Riggio should be accepted as a visionary," says Peter Gethers, publisher of Random House's Villard Books imprint. "He should be embraced." Even publishers who are less gushing have accepted the notion that for better or worse, Riggio's branded, entertainment-oriented megastores are here to stay and that the quirky independent will never again dominate the industry. "Leonard Riggio is the guy I have to deal with," says Susan Moldow, publisher of Simon & Schuster's Scribner imprint.

These days, publishers turn to the powerful reference for editorial advice. Tom Wolfe's new novel *Tom in Full* appears this month won't sport cover art of a businessman going to head with a football player. "Barnes & Noble's



LOOK MA, NO STORE: Steve Riggio, Leonard's brother, at the New Jersey warehouse for online sales

INSTANT BOOKS

Riggio envisions computers with which shoppers could print obscure tracts

buyers thought there was too much confrontation," says Laurie Brown, marketing director at Farrar, Straus & Giroux, Wolfe's publisher. Instead the book will feature a shot of the Atlanta skyline. Although critics view this kind of consultation as a frightening indication of where the industry is headed, others say that it's simply good sense to draw on Barnes & Noble's market knowledge.

Partly, the grudging acceptance of Riggio and his company reflects Barnes & Noble's growing clout. However, there's something else at work, something hardware stores and toy stores learned a decade ago: Given a combination of great service, huge selection, and low price, customers will respond in droves. People simply like the place.

Riggio is counting on that goodwill to help with his next venture: Barnesandnoble.com. He is, of course, far from the first to venture into online retailing. But once again, he

aims to be the biggest. Launched just a year ago, Barnes & Noble's online sales are expected by analysts to grow from \$14 million to about \$100 million this year, compared with \$400 million for industry leader Amazon.com. Riggio plans to spend \$40 million to ballyhoo the service in 1998. "Lenny is a very, very determined man," says Donald Trott, an analyst with Brown Brothers Harriman & Co. "What he is saying is, 'I want this Internet business. Whatever it takes, I'm going to get it.'"

Right now, Barnes & Noble's Web site is just another place to sell books, but further out, Riggio sees the Internet as much more: It will be a book research center, a database, an ad vehicle, and, most of all, a tool to help people weed through an onslaught of information.

Riggio is already thinking ahead of how to integrate this technology into the shelves of Barnes & Noble. In the bookstore of the future, he says, customers could tap into millions of titles and print any part from these works on the spot. He talks of software programs that could point customers to specific lines in various books, threaded by a single topic, or ones that could ferret out and print obscure texts that never made it into book form. In short, Riggio envisions modifying the very concept of what constitutes a published work. "The change in the next 10 years," he says, "will be much more profound than what has happened in the last 10." And if Riggio has his way, Barnes & Noble will write the book on how to make it all happen.

By I. Jeanne Dugan
in New York



Cover Story



*Connect time charges may apply.

© 1998 Microsoft Corporation. All rights reserved. Microsoft and Where do you want to go today? are either registered trademarks or trademarks of Microsoft Corporation in the United States and/or other countries.



**You're totally selfless,
team-oriented and cooperative.
Your ego screams for
some credit.**

From: Microsoft Office 97
Sent: Friday, 10:37 p.m.
To: Everyone who contributed
Subject: A job well done.

Microsoft® Office 97 encourages cooperation among teams by giving credit where credit is due. As everyone works on a document or project, they're free to exchange ideas and information, all electronically. Expressing opinions, revising the wording, proofing the copy, adding sections, inserting hyperlinks—they're all recorded with the original document, and everyone's got their name on them. If you're in charge of the project, you're in control. Use the comments you like and toss the ones you don't, knowing who contributed what, when and why. You don't have to retype anything; you revise as you go. You don't have to save a new version for each round of changes; you only save the changes. Then you just say, thanks for the help, guys. For more help, and to find out about the free* online product enhancements and assistance available through Microsoft Office Update, visit www.microsoft.com/office/.

Microsoft®

Where do you want to go today?® www.microsoft.com/office/

A HEYDAY FOR UPSTARTS IN EUROPE

Fledgling carriers are swiping the monopolies' customers

It's the kind of get-rich-quick story you don't often hear in Europe. Two brothers and a friend turned a couple of family-owned electronics stores in Cologne and Munich into an alternative phone company four years ago. On Apr. 22, they took Drillisch public, selling a third of the company on Germany's Neuer Markt for \$28.7 million. The three partners, all in their 30s, pocketed \$11.4 million and are pouring the rest into new gear to go on the attack against giant Deutsche Telekom.

What made the young founders so wealthy was the final stage of European telecommunications deregulation, which took effect on Jan. 1. Deregulation has touched off a competitive frenzy in Continental Europe. Indeed, experts say competition in the \$200 billion Continental telecom market is building far faster than it did in the early stages of U.S. and British deregulation. "Change that occurred in a four- to five-year period in the U.S. and Britain is being compressed into 12 months in Germany and two years in France," explains Mark Daeché, chief executive of First Telecom PLC, a British alternative mobile operator.

Why? For one thing, the biggest Continental phone markets have moved more precipitously into deregulation. Germany, for instance, has opened its telecom market much wider even than Britain, allowing upstart rivals cheap, almost unfettered access to provide services on Deutsche Telekom's network. Another

factor: worry among regulators and government officials that without state-of-the-art telecommunications technology and services, Europe will be at an economic disadvantage.

The pace of change could yet be slowed. Governments could backtrack on planned market-opening initiatives if layoffs and losses pile up at big telecom companies, which are among Europe's largest employers. But if competition continues to expand at its current pace, it will mean dramatic growth for the whole industry, coupled with massive price cuts that will help consumers and companies alike. That, plus huge new investments in fiber-optic technologies, should give a major boost to European competitiveness.

In Germany, some three dozen rivals are nipping at Deutsche Telekom's heels.

They claim to be undercutting the giant by up to 60% in the domestic long distance market, despite Deutsche price reductions this spring. "We're under very heavy competition," says Detlev Buchal, Deutsche Telekom board member for sales and service. "We're fighting for every customer."

DARING RIVALS. Similarly cutthroat competition is likely to spread across the Continent. Prices already are falling nearly everywhere. Philip T. Barto, chairman of the European Virtual Private Network Users Assn., a trading group of big telecom users, says most members have saved about 15% so far this year as entrenched providers anticipate more competition.

Rivals from Britain and the U.S. sense major opportunities. The Angli-
Americans seem more daring than the big Continental rivals, partly because they have gone through deregulation before: At least a half-dozen of them, including WorldCom and Viatel Inc. of the U.S. and Britain's Colt Telecom Group PLC and Esprit Telecom Group PLC, are building fiber-optic telecom net-

CHEAPER CALLS: Deutsche Telekom has had to cut prices

works on the Continent. Although Esprit is taking heavy losses to fund expansion, its NASDAQ-listed shares have more than tripled since November.

So far, the telecom giants' profits seem to be holding up under the onslaught. They believe they can thrive by spreading out across the Continent and positioning themselves in growth markets such as Internet service and mobile communications. But they have to be nimble. "The market is in very rapid evolution," says Tommaso Pompei, CEO of Wind, a new rival of Telecom Italia. With Drillisch, and a host of other phone pioneers will make sense of that.

By Thane Peters
in Frankfurt
and Michael Lard
in Rome and Karl
Nickel in Anhalt
Berlin



SPEED DIALING

Why telecom competition is hitting Europe fast

Deregulation

Since Jan. 1, upstart rivals have had access to Deutsche Telekom's network in Germany. France is also opening up quickly.

Outside Pressures

U.S. and British companies, already experienced with deregulation, are pouring billions into high-tech European networks.

Techno Paranoia

Regulators and politicians fear Europe will lose global competitiveness without top-notch communications services.

FREE TO BW SUBSCRIBERS!*

The Web site of the world's most widely read business publication



BW PLUS!

Business Week and online-only content, including: Best B-Schools; The Computer Room; Enterprise (for small business); Investors Central; and more

ARCHIVES

All Business Week domestic edition issues back to January, 1991. Fast free searches! A small payment is required only when you decide to view an article

CURRENT ISSUE

The complete contents of all domestic and international editions. Includes all graphics and tables, and selected photos

Plus, we often include longer versions of printed features and original material created exclusively for online readers

Posted on Thursday evening, well before the printed magazine hits newsstands

REGISTER BW CONTENTS

BW PLUS!

BW DAILY

ARCHIVES

CONTACT US

AD INFO

COVER STORY

No longer the wunderkind, Andreessen is out to prove himself all over again

ADS AND Rx'S

Why a regulated market hypermarkets are a lot cheaper and safer ones

GROVE'S QUEST

In a Q&A, Intel's CEO tells why he's trading the big grant for the big future

THIS WEEK



YOUR MONEY

Robert Parker looks at Tom Herzfeld's second fund that focuses on Cuba

DAILY BRIEFING

The City-Travelers roundup: What's left for investors? George Lucas taps Fox

FIND YOUR FUND

BW's Interactive Mutual Fund database, updated with new data

YOUR MONEY

Regular columnists provide in-depth coverage of investing and personal finance

DAILY BRIEFING

News flashes, Q&As, commentaries; market info from S&P MarketScope and S&P Personal Wealth; and much more

FIND YOUR FUND

Our mutual fund database has extensive performance and portfolio data, and Business Week's ratings on 4,000 funds. Updated monthly!

CAREER CENTER

We'll help top-notch talent find top-quality jobs, confidentially and free. And for employers, it's far better than want ads

COMPUTER BUYING GUIDE

Maven, our interactive guide, offers objective computer reviews and rankings based on tests performed by NSTL

TRAVEL CENTER

Meets all your travel needs: Reservations and tickets for flights, cars, and hotels. E-mail notification of low-fare deals. And much more!

*Go to www.businessweek.com, register, and enter a 9-digit code from your mailing label. **Plus:** If you would like to become a subscriber, you can register and subscribe on the Web site—and get *immediate* access to BW Online.

Most read. Best read. Worldwide.

www.businessweek.com



A special version of Business Week Online is available on AOL at Keyword: BW

FINANCIAL SERVICES

THEY SAID IT WOULD NEVER WORK

But after a year, Morgan Stanley Dean Witter is meshing

If you want to know how the Morgan Stanley Dean Witter merger is working, just ask Ira Walker, a veteran Dean Witter broker. Since the May, 1997, deal, Walker has seen his business almost double. True, half of that is because of the bull market, he estimates. But he says the other half is from the merger. Simply put, Walker has more and better merchandise to sell. For starters, he has Morgan Stanley's fat book of initial public and secondary stock offerings. He also has Morgan Stanley mutual funds to sell in addition to those of Dean Witter and other companies.

And he has more and better research ideas to hawk, since Morgan Stanley's research department has more analysts and is far more highly ranked than Dean Witter's was. Morgan Stanley's investment banking reputation helps Walker attract small- to medium-size corporate clients. Best of all is the up-scale Morgan Stanley name, which trumps the blue-collar Dean Witter brand. Says Walker: "It's been fantastic for myself and all the financial advisers at the firm."

A FIRST. Certainly, that was not the view when the deal was announced in February, 1997. Extreme skepticism greeted Richard B. Fisher and John J. Mack, Morgan Stanley & Co.'s chief executive and president, and Philip J. Purcell, CEO of Dean Witter, Discover & Co., when they announced the deal in New York. It was the first major financial services combination in the late

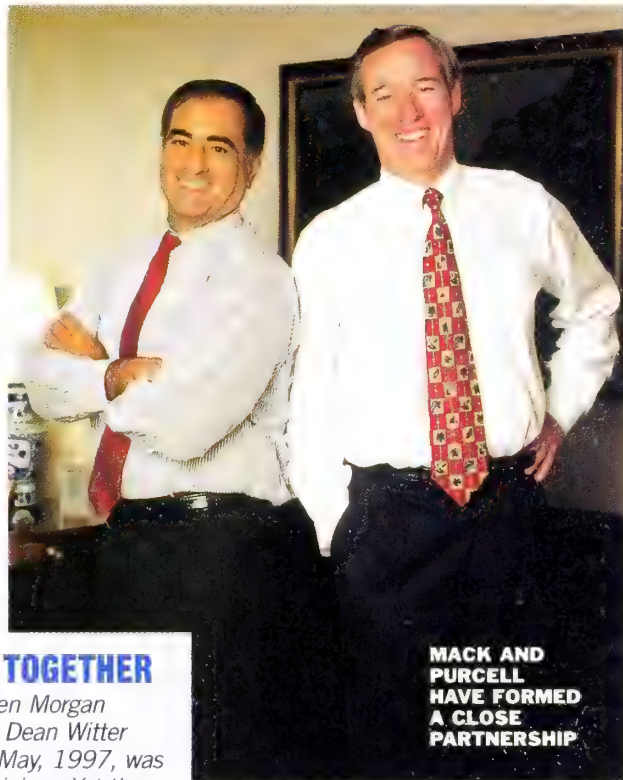
GETTING IT TOGETHER

The merger between Morgan Stanley & Co. and Dean Witter Discover & Co. in May, 1997, was greeted with skepticism. Yet the results have quieted the critics.

- 36% increase in earnings, 100% gain in stock price
- 1,000 new brokers; retail market share up from 17.4% to 18.7%.
- 40% gain in mutual-fund sales by brokers
- Big underwriting market share gains: 10% to 16% in preferred stock, 6% to 14% in junk bonds, 8% to 15% in asset backed securities*
- Under review for Moody's rating upgrade

*Jan. 1, 1996 through June 15, 1998

DATA: BUSINESS WEEK, MORGAN STANLEY DEAN WITTER



MACK AND PURCELL HAVE FORMED A CLOSE PARTNERSHIP

1990s. And the cultural chasm between the two firms inspired such witticisms as "white shoe meets white belt" and "the Four Seasons meets Burger King."

Yet a little more than a year later, Morgan Stanley Dean Witter is a resounding success. The firm's stock has doubled, earnings are "growing faster than the market and the industry," says Sanford C. Bernstein analyst Sallie Krawcheck. Brokers' new

accounts are up 40%, as are mutual-fund sales, says James F. Higgins, who heads the firm's retail business. And largely on the strength of the Morgan Stanley name, the firm has recruited 1,000 brokers, an unprecedented annual increase. This extra selling power has boosted Morgan Stanley Dean Witter's rankings on the institutional side (table). "If you look at what happened to prices last year and in the first quarter and our stock price, it's been a pretty good year for our shareholders," says Purcell, CEO of the combined company.

Putting Morgan Stanley Dean Witter to research in the hands of the brokers "is like giving them an elixir," says Mack, president of Morgan Stanley Dean Witter. "Everything that we've talked about in the past few years has worked, but at a multiple of what we thought it would be."

Of course, the test is not just seen in Morgan Stanley products to retail clients, but whether the products perform well over time. The Competitive Edge mutual fund launched in February and made up of Morgan Stanley's research ideas, returned 1.6%, vs. 6% for the Standard & Poor's 500 Stock Index. And in March, as the sol-

derwriter of \$2 billion in Sunbeam debt, Morgan Stanley Dean Witter's institutional clients saw their bonds plummet on Sunbeam's recent woes. Broker enthusiasm might have been tempered if their clients were holding those bonds.

LIKE MEETS LIKE. But so far, bad experiences are the exception. One reason the merger has worked is that both are securities firms. Combinations that throw together banks, insurance companies, and disparate units are more difficult. The Morgan deal brought together two extremely complementary players: Morgan Stanley is a strong manufacturer of financial products, and Dean Witter is a strong distributor. "I hate to admit it but it has gone pretty well and better than we expected," says one competitor.

Another reason for the success of the firm hasn't tried to integrate the two entities. They are in large parts

arate, culturally and legally, but with edges built between the two where ded. There are still two legal brokers, Morgan Stanley & Co. and an Witter Reynolds Inc., two separate computer operating systems, and separate headquarters—the corporate HQ is at 1585 Broadway, and Dean Witter remains at Two World Trade Center. The only combined areas are executive suite, the investment bank, and the equity-research department. And only 300 employees out of 1,000 lost their jobs, says the firm.

That's not to say there hasn't been location, turmoil, and grumbling in ranks. The biggest changes came at the top. Mack, slated to become Morgan Stanley's chief executive, agreed to take the president's job to pave the way for the deal. Mack and Purcell work as partners, have adjacent offices, and say neither makes big decisions without consulting with the other. Purcell acknowledges that the new setup has required some adjustments for him, Mack, and their staff. "John likes to say, 'There has been a merger,'" says Purcell. "It takes a while for everyone to figure out a different company and that different is better."

And Morgan Stanley Dean Witter is not finished. Purcell and Mack are obviously mulling further acquisitions, possibly a bank or an insurance company, although they deny any such plans. Purcell and Mack's goal is to rank higher than fourth in each business firm is in—the core businesses being securities, asset management, and credit—that's why they have sold three unrelated businesses.

HARD. Some analysts believe that selling Discover Card and possibly Kampen could be sold next. Discover is a laggard because of growing provisions for loan losses. Building a brand name such as American Express is another huge challenge. The just dropped Discover from its list for brevity and ultimately may leave Dean Witter as well. Already, the plans to phase out the faux Dean Witter character who has appeared in television commercials.

The real test will come when times get tough. "They've been smart in execution and lucky," says Gold-Sachs & Co. analyst Richard K. Weiss. "If the stock market had gone down after the deal, they would have been a big ocean liner at exactly the right time." But weathering a downturn will be easier with one stellar year behind them.

Leah Nathans Spiro in New York

MUTUAL FUNDS

MORE QUESTIONS FOR A DREYFUS FUND MANAGER

Did Michael Schonberg have a second conflict of interest?

On Jan. 28, 1997, an obscure Houston manufacturer called American Medical Technologies Inc. registered 5.4 million stock-purchase warrants with the Securities & Exchange Commission. In the world of micro-cap stocks, warrants are a kind of gold-plated discount coupon that allow favored investors to buy stock at below-market prices. In this case, the 100 warrant holders were getting a chance to buy American Medical shares at 50 cents to \$1.25 each—for a stock that was trading at about \$2.

But this innocent-looking SEC filing had a time bomb buried in its pages. One of those warrant holders was a Dreyfus Corp. portfolio manager named Michael L. Schonberg. According to the filing, Schonberg had 20,000 warrants, and the registration meant he was now able to cash them in. The value of those warrants depended largely on the ability of the stock to attract investors—and on that score, American Medical was in good shape. Only a month after the warrants were registered, another filing showed that a 350,000-share stake in the obscure penny stock had been taken by the Dreyfus Aggressive Growth fund—managed by Michael L. Schonberg.



SCHONBERG: Tidel gave him stock warrants

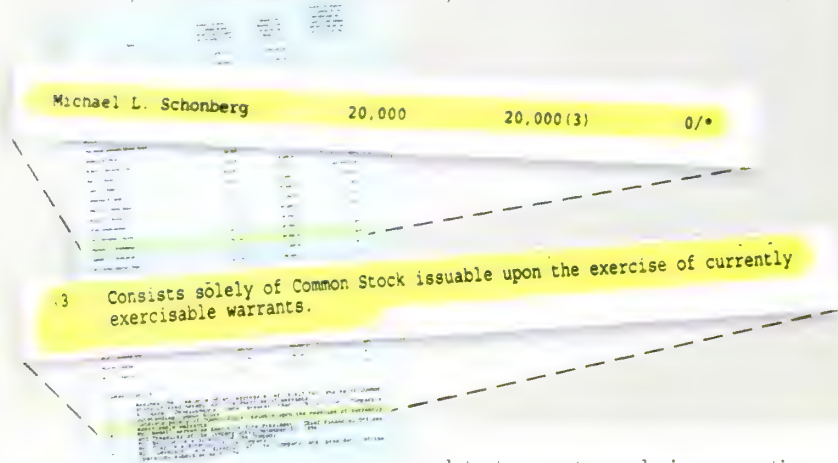
Did Schonberg's personal position in American Medical warrants influence his decision to buy its stock for the fund? Did he violate the same securities laws that resulted in the 1992 criminal conviction of a Fidelity fund manager who profited from warrants while buying related securities for her fund? These are just two of the questions raised by Schonberg's position in the warrants of American Medical,

which has since changed its name to Tidel Technologies Inc. And they come at a time when Dreyfus is coping with recent publicity surrounding Schonberg's personal position in another of his funds' major holdings—Chromatics Color Sciences International Inc. (BW—June 22).

"STRINGENT POLICY." As it has in the Chromatics affair, Dreyfus is standing firmly behind its fund manager. Schonberg declined comment, but Dreyfus spokeswoman Patrice M. Kozlowski issued a statement that its inquiries to date show that Schonberg has not violated the company's "stringent personal securities trading policy." However, Kozlowski would not respond to questions regarding Schonberg's position in American Medical Technologies, or pro-

THE PAPER TRAIL

An SEC registration statement for American Medical Technologies, dated Jan. 28, 1997, shows that Michael L. Schonberg, portfolio manager of the Dreyfus Aggressive Growth Fund, had received 20,000 American Medical warrants. A month later, the fund said it owned 350,000 shares of American Medical.



vide BUSINESS WEEK with a copy of its code of ethics. Kozlowski said that further comments would feed into the "press campaign" of a short-seller in Chromatics, Manuel Asensio, of the New York-based Asensio & Co. Asensio has been critical of Schonberg's Chromatics dealings and makes passing reference to his American Medical position on his Web site, but said he has never sold short American Medical shares nor sought publicity over Schonberg's holdings in the company.

If Dreyfus is touchy over the subject, it's understandable. As with Chromatics, Schonberg participated in the kind of deal that is accorded only a few favored investors in micro-cap stocks. But the circumstances surrounding the American Medical warrant deal are potentially more worrisome for Dreyfus and Schonberg. For one thing, unlike the Chromatics stock, which was purchased at cut rate, the warrants evidently did not cost Schonberg a penny. It is not evident from SEC filings when Schonberg obtained the warrants. Nor is it clear if he profited from them—or by how much. But if Schonberg managed to get \$2.70 a share, the average price in 1997, exercising the warrants would have gained him instant profits of somewhere between \$29,000 and \$44,000.

Another unanswered question is fundamental: Why did he get the warrants? The company's filings say that the warrants "re-

late to grants made in connection with debt and equity issues, acquisitions, directors' remuneration, and various services rendered." Schonberg is not a director of the company and, unless he performed "services," that would seem to leave the other possibility—that he got the warrants as an equity "kicker" related to his personal ownership of other American Medical securities. If so, that implies he may have had other American Medical securities in his personal portfolio when he bought the stock for Dreyfus. Officials of what is now Tidel did not return phone calls.

ILLEGAL? Whatever the reason he obtained the warrants, Schonberg's purchase of the stock for the mutual fund may well have helped enhance the value of his personal holdings. Indeed, the price of American Medical stock did not decline significantly in February, 1997, as the warrants were being exercised—even though the company's own disclosures noted that exercising of the warrants might drive down share prices. However,

Dreyfus filings do not indicate the precise timing of Schonberg's purchases of stock for his fund. In any event, the 350,000-share purchase for Aggressive Growth was apparently his only purchase of the stock for Dreyfus. He sold off 100,000 shares for the fund between September, 1997, and March, 1998, when share prices were on the wane (chart).

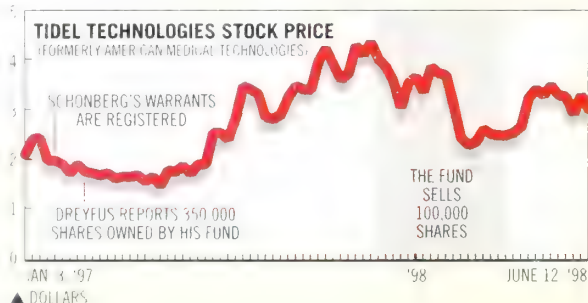
All this suggests a conflict of interest. But is it illegal? According to securities lawyers, the Investment Company Act and other laws are far from stringent in their regulation of personal trading by fund managers. Funds also are required by law to have codes of ethics. In its statement, Dreyfus noted that, under its code, portfolio managers are prohibited from personally investing in companies in which funds they manage also may invest." But former Putnam mutual-fund group compliance chief Edward A. H. Siedle, now a private securities lawyer, observes that fund managers have another prohibition that could prove thorny—Section 17(e) of the Investment Companies Act. That prohibits fund managers from accepting "from any source any compensation other than their regular salary or wages from [the mutual fund] for the purchase or sale of securities by the mutual fund.

Siedle, a vocal critic of personal trading by fund managers, notes that Section 17(e) has had serious consequences in the past. In 1992, a former Fidelity Investments fund manager, Patricia Ostrander, was convicted of securities law violations for running afoul of that law. A jury found she profited from stock warrants issued during a leveraged buyout engineered by Michael Milken in the 1980s. According to court decision in that case, Ostrander vested her personal funds in a partnership that owned warrants, at the time that she was buying related securities for Fidelity.

Scandals have been few and far between in the fund industry—and have never touched Dreyfus, a subsidiary of Mellon Bank. In its statement, Dreyfus noted that its "reputation for integrity speaks for itself." True enough. But Schonberg's actions, as outlined in SEC filings, raise serious questions. And unless Dreyfus can come up with a convincing explanation for the 20,000 warrants, the fund's reputation for integrity may be tarnished.

By Gary Le
in New

SCHONBERG'S TIDEL CONNECTION



DATA: BLOOMBERG FINANCIAL MARKETS, MORNINGSTAR INC.



Cool waters splashing in the lobby to soothe you.
Hot coffee brewing in your room to wake you.
AT HYATT EVERYTHING JUST FLOWS.

On your next business trip what will you demand from your hotel? The tools that enable you or the luxuries that reward you? At Hyatt you always get both.

To make your stay as productive as possible, our Business Centers are staffed to help with needs such as dictation, photocopying, translation, and courier services.

And if your trip also offers you the opportunity to unwind, ask about Regency Club. There you'll find the special value of more spacious rooms and the added convenience of a private lounge



with a dedicated concierge staff, complementary continental breakfasts and evening hors d'oeuvres.

Of course, no matter what brings you to Hyatt, your stay with us can earn free travel on our fourteen global airline partners or in Gold Passport, our worldwide frequent guest program.

So next time stay with Hyatt. And see just how smoothly a business trip can go. For reservations contact your travel planner, visit us at www.hyatt.com or call Hyatt at 1-800-233-1234.



Let us. Hyatt Touch

Travel with the American Express® Card and enjoy Cardmember privileges like Assured Reservations to guarantee your room, even if you arrive late.* With more than 1,700 Travel Service locations in over 130 countries,** the American Express worldwide network can also assist you with travel arrangements, letter pick-up, and American Express Travelers Cheques. It's smart business to make the American Express Card your constant travel companion. To apply for the Card, call 1-800-THE-CARD, or visit us at www.americanexpress.com.* Ask your travel planner for details.** Not all services available at all Travel Service locations and are subject to local laws and cash availability.



Cards

Regency Club is available for purchase at select Hyatt properties worldwide. Hyatt Business Center is open during local business hours at most Hyatt properties worldwide. Hyatt Hotels and Resorts® encompasses hotels owned, franchised, or operated by two separate groups of companies—Hyatt Corporation and its affiliates and affiliates of Hyatt International Corporation. © 1998 Hyatt Corp.

REITS

A DIFFERENT KIND OF BET ON LAS VEGAS

Crescent focuses on a gaming market for locals, not tourists

These are trying times for Las Vegas casino operators. And the betting is things will get worse before they get better. A casino-building boom along Las Vegas Boulevard, better known as the Strip, has created an overcapacity of hotel rooms, which is squeezing room prices, occupancy rates, and profits. So how do the promoters of a large, Las Vegas-oriented gaming real estate investment trust announced on June 15 think they'll attract investors? "We're not interested in the Strip," says billionaire financier Richard E. Rainwater, chairman of Crescent Real Estate Equities Co., which is launching the REIT. "We're only interested in the locals [gaming] market, which I think is a great market niche."

REIT and gaming industry experts agree that focusing on the lucrative "locals" niche—Las Vegas residents—bodes well for Crescent's ability to get the industry's first "pure" gaming REIT off the ground. Initially, the new entity will consist of Station Casinos Inc., the dominant owner of locals casinos in Vegas that Crescent is in the process of acquiring for \$1.7 billion.

"LESS VOLATILE." But over the next year, Crescent CEO Gerald W. Haddock anticipates snagging an additional \$700 million in acquisitions or developments for the gaming REIT, which will also see growth from expanding existing facilities. "The locals sector is less volatile than the Strip," says analyst R. Christopher Case of Southwest Securities Inc. "Many investors are attracted to that."

Indeed, the residential gaming business is everything the Strip is not—no overbuilding, a consistent customer base, and predictable revenues. "This is a very different play from the Strip," says Haddock.

Not to mention a different play for Crescent. Investors have given the REIT a long leash to carry out its strategy of scooping up a wide array of assets. Since



HOME-FIELD ADVANTAGE

Station is the dominant owner and operator of casinos for Vegas residents—all located off the Strip, and including amenities like movie theaters and bowling alleys

its 1994 inception to the end of 1997, the Fort Worth (Tex.)-based company has snapped up \$3.8 billion of assets—everything from office buildings and psychiatric hospitals to cold-storage units and hotels. Over the same period, its share price appreciated 215%, and its funds from operations—the best measure of REIT's performance—soared nearly 37%, making Crescent one of the best performing REITs in the country.

STICKER SHOCK. But last January, when the company announced plans to roll the company on gaming by buying Las Vegas-based Station, some investors wondered if the move was wandering too far afield. Specifically, they were concerned that Crescent paid too high a price to enter the volatile gaming business, which trades at a lower earnings multiple than REITs. While the entire REIT market is off about 12% so far this year, Crescent's stock is down 25% mostly because of the game move.

Now, Crescent is banking on the creation of the separate gaming entity to help ease those concerns and bring in core real estate investors back into the fold, while also giving a distinct capital base at which to increase its swelling interest in Las Vegas gaming. "The separation will be good," says Haddock. "Crescent shareholders who have been concerned about gaming will be comfortable." Crescent expects to continue owning about 60% of the gaming REIT, whose non-real estate assets will be placed in a separate operating company in order to maintain its REIT status. The casino REIT will be formed upon completion of the merger of Station, whose hotel and casino properties feature amenities like movie theaters and bowling alleys that appeal to local residents. The deal is expected to close in early October.

Now, the question is whether Crescent's big gamble pays off.

It's too early to tell, but, says Warren E. Spitz, managing director of Prudential Investments Inc., a Crescent shareholder, "given their great track record, I'm not willing to bet against them. Odds are someone else will."

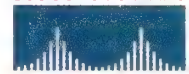
By Stephanie Anderson
in Dallas

IS THE COMPANY THAT BROUGHT THE INTERNET TO BUSINESS BEHIND YOUR ISP?



Meet the most powerful team in business network services: Cisco Systems and Cisco Powered Network service providers. Virtually every piece of information that travels across the Internet travels across Cisco equipment. Your Cisco Powered Network service providers use this very same equipment to bring new, innovative network services to your business. You can get behind the whole program at www.cisco.com/cpn.

CISCO SYSTEMS



EMPOWERING THE
INTERNET GENERATION™

© 1998 Cisco Systems, Inc. All rights reserved.

BY GENE G. MARCIAL

A SECOND RUN FOR CIRCUS CIRCUS

Casino stocks have been a losing bet all year. Most of them have tanked because of the slump in Las Vegas. Circus Circus Enterprises (CIR) has been no exception, with its stock at just 16, down from 26 in mid-March. On top of the glut of hotels in Las Vegas, Circus stock also has been reeling from dashed hopes of a takeover by Hilton Hotels.

Talks between the two ended in late March—with no cigar. Chief reason: price. Circus officials gave other reasons for the talks' collapse, including a possible large tax liability. But one investment manager contends that Circus at the time simply wanted more money than Hilton was willing to pay, said to be around 28 a share.

Guess what. Whispers are that Hilton has approached Circus for another round of talks. At this point, says this investment banker, Hilton thinks its 28-a-share offer was just right. Earlier, Circus—a major casino whose properties include Luxor, Excalibur, and Circus Circus in Las Vegas—had wanted a decent takeover premium on its stock, then trading at around 25.

If Hilton sticks to its original offer of 28, says one analyst, it would represent the big premium on Circus' current price. For Hilton, whose stock was then between 32 and 34, the dynamics of such a deal would hardly change. Its stock currently trades at 31. Hilton's idea at the time of the talks was to split its gaming and hotel operations into two separate public companies. Circus would then be merged into the Hilton gaming arm.

Both companies badly need a combination because of the increased competition in the industry. Jason Ader, an analyst at Bear Stearns who downgraded his rating on Circus from "attractive" to "neutral" when the talks

failed, notes that, as in any other large-cap gaming merger, a Hilton-Circus combo could provide economies of scale through centralized purchasing and reservations. Analysts expect Circus will earn \$1.09 a share for the year ending Jan. 31, 2000, up from an estimated 90¢ in fiscal 1999. The company earned 94¢ in fiscal 1998. Both Hilton and Circus Circus declined comment.

FIXING GLITCHES AT A SOFTWARE STAR

The saga of Project Software & Development (PSDI) has a familiar ring: A hot-growth company slips up, disappoints the Street at earnings time, and gets punished by investors. Project Software, whose output is used for managing factory operations, paid a high price for its errors. In just one day last year—Apr. 2—the stock tumbled from 31 to 15. It then fell further, to 11, ran up to 26 this year, and now trades at 21. Some pros insist the stock is destined to go higher.

One reason: Founder Robert Daniels, who holds 20% of the stock, recently took the reins from David Sample, the CEO who had succeeded him in 1996. "The board felt Sample wasn't aggressive enough in expanding the business," says analyst David Settle at brokers Loewenbaum & Co. He rates the stock a "strong buy."

Settle says the company has corrected the management problems that led to the last earnings shortfall, adding that sales are growing as fast as before the nose-dive. He estimates that the company will earn \$1.50 a share in the next year, which gives it a price-earnings ratio of 14—low for an enterprise software company. The p-e drops to 10 if you take out the \$5.50 a share in cash on the debt-free balance sheet.

One New York takeover player has been buying, betting that Daniels is getting the company ready to sell. Settle doesn't rule that out, but he says Project Software is attractive on its

own merits, with a p-e only half its growth rate. His 12-month price target for the stock is 36.

By Jeffrey M. Laderman

TERA'S NEW BREED OF SUPERCOMPUTER

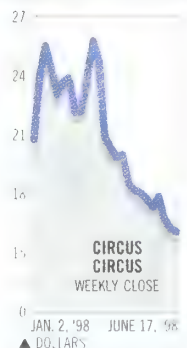
A supercomputer? Against all odds—and amid widespread skepticism—that's what Tera Computer (TERA) has produced. In April, it delivered its first to the San Diego Supercomputer Center, a facility funded by the National Science Foundation. Will this turn the unknown Tera into a supercompany? Some investment pros believe it will.

Tera's revenues are expected to jump from zero last year to \$12 million this year and to \$62 million in 1999, says John Jones, an analyst at Salomon Smith Barney. He expects Tera to have earnings of 58¢ a share in 1999.

Skeptics point out that there have been no big leaps in supercomputer technology in recent years. The leader in supercomputer technology, Cray Research, was acquired by Silicon Graphics in 1996. But the Defense Dept., seeing the need for a new generation of supercomputers, funded Tera to the tune of \$20 million. Defense is interested in supercomputers to speed up the design of aircraft and weapons systems and to simulate nuclear blasts, says one Tera insider.

Tera CEO Jim Rottsohlk thinks the analysts' estimates may turn out to be conservative. He expects the initial San Diego order of \$4 million will rise to \$8 million by yearend. By next year, he figures Tera's revenues will rocket to between \$50 million and \$80 million. He says several auto and aerospace executives have approached him for possible orders, which he figures would carry Tera into an even much larger market.

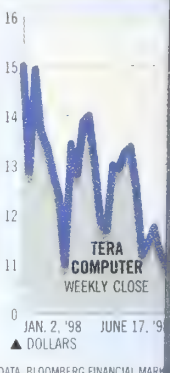
NASTY FALL FROM THE HIGH WIRE



IS THE BUMPY PATCH OVER?



LESS THAN SUPER PERFORMANCE



BusinessWeek ONLINE

For more coverage of the markets, visit our Web site at businessweek.com

MAGNIFICA



With Magnifica Class, Alitalia raises the standard of flying to a fine art.

Alitalia, the world's premier airline to Italy, presents Magnifica Class. A masterpiece of style and service that reflects the very best of Italy. Outstanding cuisine and superb wines served with the warmth and friendliness that could only come from people who have turned living into an art form. Every detail in Magnifica is first class, from our luxurious, leather-trimmed seats to our award-winning, five-star meals

and international wine selection. Best of all, your Magnifica Class flight to Italy, including chauffeur-driven transfers in Rome and Milan, costs the same as a business class ticket. Alitalia offers superior service to 135 cities in 63 countries worldwide, so whatever your travel plans, call 800-223-5730 or visit our website at www.magnifica.com for more information.

MAGNIFICA CLASS. THE BEST OF ITALY.



Alitalia participates in the frequent flier programs of Continental and US Airways. Newark flights operate in partnership with Continental Airlines and feature BusinessFirstSM service.

Alitalia

The 1998 BusinessWeek Executive Education & MBA Directory

Recognizing a Worthy Investment

Every day the world of business spins a little faster and gets a little smaller. Falling regulatory and trade barriers are opening up new markets. Mergers are crossing industry lines and national borders. Innovative technologies and entrepreneurial companies are redefining the manner in which businesses today must operate.

To remain competitive in this dynamic marketplace, successful businesses and executives are putting a new twist on old advice: Work hard, and never stop getting a good education.

Professionals who want to advance in today's marketplace are taking responsibility for their own career development. Smart companies encourage and support these employees by helping them research appropriate courses and sponsoring their study. Fortunately, business schools nationwide are offering a host of practical educational opportunities designed to help careers without interrupting them.

A Range of Executive Education Options

Fully accredited Executive MBA programs, which offer one day a week or weekend classes over a two-year period, are growing. Executive MBA students share and learn from one another's career experiences while honing their skills in core business disciplines. Industry-specific MBA's offer courses for those looking to grow in their current career, or transfer their skills into a new one. And increasingly, one can take classes and earn a degree on-line, while at home or at the office.

Non-degree executive education is on the rise as well. Requiring less of a time commitment (usually three days to one month) these courses focus on a specific skill set or knowledge area—from general management, global strategy and leading teams, to financial management and marketing analysis among others. Attendance at these courses has risen 33% over the past five years, and they draw participants from across the country and around the world. Like Executive MBA, participants benefit from one another's professional experiences and form new business relationships.

For companies that are looking to have their own unique set of educational needs met, many business schools today offer customized programs. Through needs-analysis and tailored curriculum, these programs best address the challenges faced by an individual organization.

Identifying the Right Program

To enroll in the program which best suits your needs, it's important to plan ahead and research all available options. For more information on the programs listed in this directory as well as link directly to their sites, log on to the Internet (www.businessweek.com/BizLink/) or call 1-800-848-6706.

the MBA



Daniel Capatzi
Executive Vice President
John Hancock Mutual Life
Insurance Company
Boston, MA
BC MBA '98

Boston College
Graduate School
of Management

617.552.3920
www.bc.edu/mba



that gets **results**

Get the managerial education and experience you need to succeed in today's business climate: an MBA from Boston College. Our innovative management curriculum provides you with global opportunities to learn by doing—solving actual business problems via consulting, business planning and global study projects. Now offering a Management of Information Technology concentration within the MBA, as well as a dual MBA/Master of Science in Finance degree.

MBA Program

BOSTON COLLEGE

IT TAKES A PROVEN LEADER TO MAKE ONE



Join the successful business leaders who have benefited from the experience, associations, and expertise only available at Michigan. For information or to request a program catalog call **734.763.1000**.

EXECUTIVE EDUCATION CENTER
UNIVERSITY OF MICHIGAN BUSINESS SCHOOL

THE GLOBAL LEADER IN EXECUTIVE EDUCATION

Phone: 734.763.1000 • Fax: 734.764.4267
<http://www.bus.umich.edu> • E-mail: um.exec.ed@umich.edu

THE MBA IN Media MANAGEMENT

Plan, produce and promote a film, TV, video or other media venture while you earn your MBA and work in your field.

Be part of the dynamic New York media scene.
Earn an MBA in a 1-year, 3-semester sequence.

Learn more: call **212-343-1234, ext. 5001**.
Fax **212-343-8470** www.audrey-cohen.edu

SCHOOL FOR BUSINESS

**Audrey
Cohen
College!**

75 Varick St. NY, NY 10013



Earn the MBA that keeps pace with technology.

Success in today's business world depends on mastering the latest technology. Yet few MBA programs give students the technological skills they need.

At WPI, we offer a highly flexible, highly relevant MBA Program with a strong technology focus and a global perspective. Opportunities include:

Graduate Degree Programs

MBA
MS in Marketing & Technological Innovation

MS in Information Systems & Technology

Graduate Certificate Programs

Management of Technology

Management of Information Systems

Student-friendly options include full- or part-time study, the convenience of two campuses—Worcester and Waltham, MA, and worldwide delivery of our entire MBA via WPI's Advanced Distance Learning Network. So call or visit WPI today. Our MBA not only gives you the edge. It gives you the cutting edge.

Fall semester begins Sept. 9, 1998.

Call for a graduate or undergraduate catalog in technology management.



Worcester, Massachusetts
Founded on Tradition Since 1865

508-831-5218 • wpigmp@wpi.edu • <http://mgmt.wpi.edu>

The 1998 BusinessWeek Executive Education & MBA Directory

COMPANY INFORMATION

For more information on the companies in this directory, you can either log on to the Internet, or use the telephone.



www.businessweek.com/BizLink/

BizLink is Business Week's electronic reader service fulfillment system. You can request information and/or link directly to company websites. Or simply call 1-800-848-6708 to request information by telephone. Companies are listed in the June 29, 1998 issue.

- | | |
|---|---|
| 101. Audrey Cohen College | 113. University of Iowa—School of Management |
| 102. Boston College | 114. University of Michigan Business School |
| 103. Claremont Graduate University—Drucker
Graduate School of Management | 115. University of Pittsburgh—Katz Graduate
School of Business |
| 104. Colorado State University | 116. University of South Carolina—The Darla
Moore School of Business |
| 105. Emory University—Goizueta Business School | 117. University of Southern California—Marshall
School of Business |
| 106. Georgia State University | 118. Wake Forest University |
| 107. ISIM University | 119. Washington University—Olin School of
Business |
| 108. Loyola University Chicago | 120. Worcester Polytechnic Institute Graduate
Management Programs |
| 109. Ohio University Executive Education | |
| 110. Penn State University | |
| 111. Tulane University | |
| 112. University of Florida | |

To reserve space now in the fall directory, call 1-800-424-3090.
Closing date is August 31, 1998.

DRUCKER

WHERE THE
BRIGHTEST
MINDS IN
BUSINESS
GET BRIGHTER

As an MBA, EMBA, or Ph.D. student at Drucker, you will be interacting with the "best and brightest" from among our world-renowned faculty and your accomplished classmates. Designed especially for busy individuals already dynamic in the work force, our programs will enable you to move beyond simply adapting to change to actually creating change. Developed around the vision of our Professor Peter F. Drucker, our world-class education will prepare you for the challenges of leadership in today's competitive global marketplace.

For more information about the Drucker Advantage, call us toll-free or visit our website at www.cgu.edu/drucker.

1-800-944-4312

Website: www.cgu.edu/drucker

Email: drucker@cgu.edu

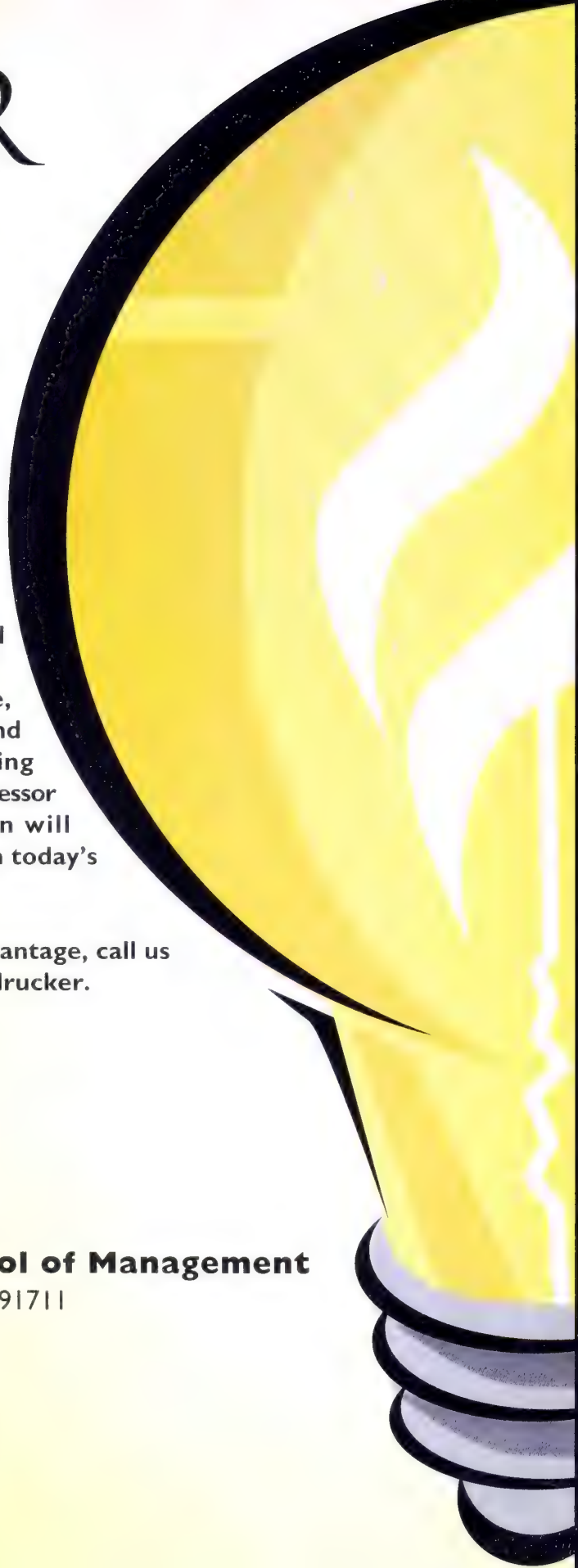
Peter F. Drucker Graduate School of Management

100 North Dartmouth Avenue, Claremont, CA 91711



claremont

CLAREMONT GRADUATE UNIVERSITY



EXECUTIVE MBA PROGRAM

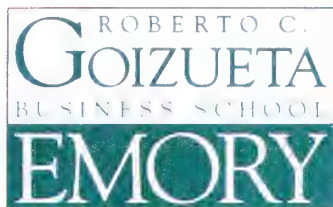
Building cross-functional organization
 leaders from accomplished managers
 a 16-month program
 Phone: (404) 727-6311

EVENING MBA PROGRAM

Optimizing the potential
 of promising executives
 Phone: (404) 727-6311

**NON-DEGREE
EXECUTIVE EDUCATION**

Invest in yourself and your career
 by learning from leaders
 Phone: (404) 727-2200



web site: www.emory.edu/BUS/

"Invest in Yourself"

Marshall

USC
 UNIVERSITY OF SOUTHERN CALIFORNIA

Boost your career

Executive MBA Program

- For mid-to-senior-level managers and professionals with at least eight years work experience
- Class sessions meet alternate Fridays and Saturdays for 22 months
- Thematic curriculum addresses practical business issues

Executive Development

Update your business knowledge through several non-degree programs covering topics such as:

- General and change management
- Leadership
- Global business
- Human Resources Strategy
- Marketing

Take the **next step** with
 Marshall Executive Program

University of Southern California
 Marshall School of Business
 (213) 740-8990 Fax: (213) 749-3611

Master the Market

Want to know what it feels
 like to be on top of the world?
 Get an Iowa MBA and you'll
 be sought by leading national
 and international corporations

Top employers know that
 Iowa MBAs have the skill to
 apply technology to business
 opportunities, the knowledge
 to develop effective solutions
 and the persistence to get
 the job done.

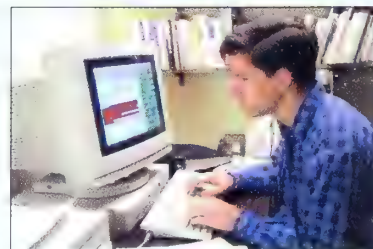
Learn more about
 the Iowa MBA

E-mail:
iowamba@uiowa.edu
 Website:
www.biz.uiowa.edu/mba



THE UNIVERSITY OF IOWA
 SCHOOL OF MANAGEMENT
 1-800-MBA-IOWA

AWARD WINNING DISTANCE EDUCATION



"It's great to have the flexibility to go to class
 when it's most convenient."

Ron L. Williams, Applied Materials, Inc.

"I decided to test the waters by taking one class. It
 proved to be the best educational experience I ever had."

Colonel John Miller, Retired, USAF Reserve

ISIM
 UNIVERSITY

800.441.4746
www.isimu.edu

admissions@isimu.edu
 Denver, Colorado

MBA & MS Degree

Executive Education

Accredited by the
 Distance Education and Training Council

COMMENTARY

By Justin Catanoso

BASEBALL SHOULD GO WHERE THE MONEY IS

Nobody seems to want the Minnesota Twins.

Legislators there refused to build them a new ballpark, and when the Twins tried to move to North Carolina's Triad region, voters rejected a stadium tax whose passage was seen as a crucial measure of support. Next stop was Charlotte. But in mid-May, a baseball organizing committee concluded that Charlotte—home to the Hornets of the NBA and the Panthers of the NFL—isn't going on heart but short on demographics. Best-case scenario: It might be ready to support a baseball club in five years.

So what are the Twins doing? Probably what the Montreal Expos, Oakland Athletics, San Diego Padres, Pittsburgh Pirates, and every other small-market team in trouble should do: Move to a big market. Because the broadcast and corporate money isn't there, these teams don't have the wherewithal to pay outrageous salaries—and thus be competitive. At a meeting of Major League Baseball owners in Atlanta in early June, acting Commissioner Bud Selig suggested for the first time that if clubs can't compete because they're in a crummy market, they might have to head for more inviting environs. That's a baby step in the right direction, since no baseball team has moved in 26 years.

EXCESS CAPACITY. But where would they go? Fay Vincent, the last full commissioner of baseball, years ago warned owners about overextending themselves. He argued that markets such as Phoenix and Denver, far from home to expansion franchises, would have been held as relocation sites for struggling teams. Instead, baseball has what Vincent feared: runaway salaries as too many teams use too few talented players. But with owners splitting the \$150 million from new franchises, says Vincent, "they couldn't resist because it's

the easiest money going. They were like kids in a candy store."

Now baseball has a tummy ache and is looking for a quick cure. One radical idea would be to allow small-market teams to relocate to wealthy markets that already have teams—maybe even the biggest market of all, the Big Apple.

O. K., O. K., hold that Bronx cheer—the idea isn't as loony as it sounds. Here's why. The Yanks and Mets have combined local broadcast revenues of \$85 million an-

Rosentraub of Indiana University-Purdue University at Indianapolis have long argued that as long as baseball refuses to engage in meaningful revenue-sharing, the only alternative for small-market teams is to move to rich urban areas.

"With absolute ease you can put another team in New York," says Rosentraub, pointing to northern New Jersey or Long Island. And while such a team would cut into the Yankees and Mets broadcast and fan base, that would further serve to level baseball's economic playing field.

Before anyone starts packing, though, let's return to reality. The Yankees' Rick Cerrone calls the notion "ludicrous" and points out that the best team in baseball has to give away Beanie Babies to fill Yankee Stadium. Mets owner Fred Wilpon notes that 45 years ago, when New York last had three teams—the Yankees, Giants, and Dodgers—none was particularly successful in filling their ballparks.

"Theoretically, New York may have excess capacity," Wilpon says. "But look at the practical data. Attendance is down." Wilpon argues there are plenty of cities left that could support baseball, citing Nashville, Sacramento, and Orlando, as well as Charlotte. But each of those has one or two pro franchises.

The fact is baseball needs to consider drastic steps like letting a second franchise locate in Los Angeles or a third in New York. Having added four new teams in the past six years, virtually every viable new market is taken. Baseball's long-term health is at stake, and the response to such suggestions should be more thoughtful than: fuggedaboutit.

Catanoso, based in North Carolina, was assisted by Jay Weiner in Minneapolis.



A THIRD NEW YORK TEAM?

The Yankees play the Giants in a 1951 World Series opener, when the Big Apple had three clubs

annually—10 times what the Twins, for example, get. New York has 1,061 companies with 500 or more employees each and only 201 luxury suites—one of the lowest ratios of big corporations to high-priced seating in the country.

Clark Griffith, whose father, Calvin, once owned the Twins and who is trying to buy the team back from billionaire banker Carl Pohlad, concedes: "Moving to New York is not a silly idea. That is exactly where there is excess capacity." Sports economists Roger G. Noll of Stanford University and Mark S.

EDITED BY AMY DUNKIN

SO YOU WANT TO TIPTOE BACK INTO EMERGING MARKETS?

Nearly a year ago, Thailand gave up trying to defend its currency and let market forces devalue the baht. It was like pulling a loose thread on a cheap suit. Thai stocks plunged, and so did stocks and currencies in Malaysia, the Philippines, South Korea, and Indonesia. Hong Kong equities melted in the fall, and this year, markets in Latin America—and now, Russia—are sinking as well.

The carnage has brought into question the whole concept of investing in equities to capitalize on the development of rapidly growing economies. Indeed, some pros have stopped wondering when these economies will turn up and instead are asking whether emerging market investing has any legitimacy at all. "From a risk-reward standpoint, it's hard to justify investing in emerging markets," says Robert Markman of Markman Capital Management, who moved heavily into emerging market funds in 1993, when they were delivering enormous returns. Now, says Markman, "there's a bull market in the U.S. and Europe. Why would you want to invest in markets where financial disclosure is poor, regulation is weak, and many corporate leaders act in ways that would, in the U.S., land them in jail?"

FINDING BOTTOM. Many investors ignored these factors when the markets were sizzling. But when pros express such vitriolic sentiments, it's often a sign that a battered market is near bottom. So would it be smart to open your checkbook and start buying? Trouble is, finding a bot-

tom in these markets is tricky. Months ago, many analysts expected that emerging markets would have found their footing by now, but that obviously isn't the case. The dollar-denominated Morgan Stanley Capital International Emerging Markets

Free Index lost 14% in May and fell 12% more through June 15, bringing its 1998 drop to 21.1%. The index is down 43% since July. Diversified emerging-markets mutual funds—the vehicles

most individuals use to invest—have done little better than the widely watched index. They're down 17% this year and 32% for the 12 months ended June 15. "In 12 years of following emerging markets, investor sentiment is about the worst I've ever seen," says Morgan Stanley Dean Witter strategist Jay Pelosky.

As markets have cratered, trading volume has slowed to a trickle. Activity in Teléfonos de Mexico, one of the bell-

wether emerging-market issues, is down to 20 to 25% of its volume of two years ago. Volume in the Russian stock market is down about 80% from 1997, when the market was soaring. After a year of battering, these markets seem to be falling not so much because of a crush of sellers as of a dearth of buyers, as cash flows to emerging-market funds have dried up.

Normally, when a market or sector gets trounced, investors go back to historical records to help them gauge the depths of the downswing by what happened in similar situations in the past. But there's not much history here.

Most emerging-market indices go back only about a few years, and the bulk of emerging-market funds were launched in the early 1990s. In contrast, investors have nearly 30 years of reliable data on industrial country markets and more than a century's worth for the U.S.

That lack of history leaves some analysts to ask whether emerging market equities indeed, form a separate class of asset with a risk-return pattern that's not correlated with any other class. Adding an uncorrelated asset class to diversify a portfolio of U.S. stocks, bonds, and estate, and help shield it from shocks. To be sure, emerging markets have moved in opposite direction from securities for more than a year. But even those who guard emerging markets as a unique breed counsel cau-

Bargain-Hunting Amid the Bloodbath

DIVERSIFIED FUNDS

	ASSETS MILLIONS	TOTAL RETURN*		
		1998	12 MONTHS	3 YEARS
EVERGREEN EMG. MKTS. GR. B	\$4.5	-7.4%	-0.9%	7.9%
FEDERATED EMG. MARKETS A	51.4	-10.1	-16.3	NA
MONTGOMERY EMERGING MKTS. R	881.9	-24.5	-26.5	-4.2
NICHOLAS-APPLGATE EMERGING CTRY. A	74.1	-10.1	-6.5	12.3
PIONEER EMERGING MKTS. A	131.4	-19.2	-8.7	9.0
SSGA EMERGING MKTS.	272.1	-12.3	-21.4	0.4
TEMPLETON DEVELOPING MKTS. I	3640.6	-18.8	-28.2	0.1
VANGUARD INTL. EQTY. EMG. MKT.	739.7	-19.6	-28.8	-3.8
MSCI EMERGING MARKETS INDEX**		-21.1	-29.8	-7.7

FOREIGN FUNDS WITH EMERGING MARKETS EXPOSURE

ACORN INTERNATIONAL	1888.9	18.8	17	16.9
AM. CENT.-20TH CENT. INTL. DISCOVERY INVESTORS	847.1	26.4	37.2	31.1
ARTISAN INTERNATIONAL	350.9	24.8	28	NA
BT INVESTMENT INTERNATIONAL EQTY.	1050.1	17.7	30.8	23.5
IVY INTERNATIONAL A	1917.1	4.5	11.6	16.2
TEMPLETON FOREIGN I	15216.9	-0.2	5.9	12.0
MSCI EAFE INDEX***		8.0	11.1	9.8

*Appreciation plus reinvestment of dividends and capital gains before taxes; 1998 returns through June 15, others are average annual returns through May 29

**Morgan Stanley Capital International Emerging Markets Free Index in U.S. dollars

***Morgan Stanley Capital International Europe, Asia, & Far East Index in U.S. dollars

DATA: MORNINGSTAR INC./BUSINESS WEEK



co says both Nicholas-Applegate Emerging Country A and Pioneer Emerging Markets A funds are noteworthy. Like Mobius, Pioneer's Mark Madden looks for battered value stocks, but he's quicker to trade them. In these tough markets, that seems to be a virtue—Pioneer was down only 8.7% in the 12 months ended in May, vs. Templeton Developing Markets' 28.2% drop. Nicholas-Applegate takes a different approach, preferring to buy pricier but still prospering growth stocks. So far this year, Nicholas-Applegate's growth style is producing better results.

Among no-load funds, some analysts like Montgomery Emerging Markets R for its relatively long history and the depth and experience of its management team. But recent years have been brutal for this fund. Another choice is an

These markets seem to be falling not so much because of a crush of sellers as of a dearth of buyers

Schwartz, a consultant at son Associates Chicago, still says that over the last few years, emerging markets should rebound about 10 percentage points more than developed markets. But he says investors should limit

emerging markets to 20% of foreign stock allocation. If you plan to have 25% of portfolio overseas, 5% should be in emerging markets. "I wouldn't make a major investment in these markets right now," says Michael R. of Lipper Analytical Services. "But if you're a long-term investor, you might start small one." More making any new investments, Lipper says, sell

any emerging-market funds in taxable accounts that are in the red. Take the tax loss and make a new investment in a similar fund. You should probably consider a diversified emerging market fund (table) rather than bet on one country or region. The fund with the longest track record is Templeton Developing Markets I, run by Mark Mobius, the dean of emerging-markets investors (BW—May 11).

While its five-year track record puts the fund at the top of its category, recent returns have been disappointing, largely because Mobius bought beaten-up Asian stocks too soon. You might also want to take a look at Templeton Emerging Markets Appreciation Fund,

a closed-end fund on the New York Stock Exchange. It trades at a 20% discount to net asset value, making it cheaper to buy than the older closed-end fund, Templeton Emerging Markets, with a 3% premium, or the open-end Developing Markets Fund, with a 5.75% sales charge.

Fund watchers say there are good alternatives to Templeton. Among load funds, Morningstar analyst Bill Roc-

index fund—Vanguard International Equity Emerging Market, pegged to the Morgan Stanley index. The big advantage of this fund is an expense ratio of just 0.57%, a third of that for the average diversified emerging-markets fund.

Not everyone is a fan of the diversified approach. Investment advisers Alan and Steven Cohn of Sage Online prefer regional funds. They argue that these have a better combination of reward, risk, and expenses. Among their top choices are Scudder Latin America and Guinness Flight China. Another option is closed-end country and regional funds. Market turmoil has them selling at hefty discounts to NAV. Miami-based closed-end fund investor Thomas Herzfeld suggests the China Fund, at a 17% discount; Greater China Fund, at

16%; and Morgan Stanley Asia Pacific Fund, at a 22% discount. He sees them as trading opportunities and might well sell them if their discounts narrow sharply.

Perhaps the most conservative emerging market play is via a diversified international fund that has the ability to sit out the worst storms in developing economies—or bet on

their recovery. Financial adviser Tim Medley in Jackson, Miss., is a fan of Acorn International Fund, which is investing selectively in Hong Kong, Singapore, and Latin America. All told, emerging market equities are 14% of the fund. Medley says if star manager Leah Zell “puts some of the fund into emerging markets, then I’ll trust her

judgment.” Other international funds that invest in emerging markets include Artisan International and BT Investment International Equity.

Although timing any comeback in emerging markets is nearly impossible, some long-term bulls believe markets are so oversold that it won’t take much to bring them around. “The news doesn’t

have to turn positive, or less negative,” says Morgan Stanley’s Pelosky. Markets are so illiquid, he argues, that “when the turn comes, it’s going to be a very aggressive move up.” If you have the stomach of cast iron and the eye for bargains, you might want to make a modest bet that the carnage is coming to a close. *Jeffrey M. Laderman*



A CHANCE THAT COMES ONCE IN A MILLENNIUM

When assistant vice-president Lauris Ann Nance volunteered a few years back to help solve Atlanta-based Equifax’ Year 2000 computer problem, she had no idea the move would change her career.

In January, Nance, 47, was lured away from Equifax, a credit reporting service, to take the top tech job at Public Service Co. of North Carolina. “Without my Y2K experience I would have never had the confidence to do this,” says Nance.

The Year 2000 bug that threatens to shut down computers when they fail to read the correct date at the turn of the new century is providing a bumper crop of job openings in the information technology field. The trick, of course, will be parlaying your Y2K opportunity into a long-term career path. Says David Reingold, vice-president of marketing and strategic plan-

ning for Computer Horizons in Mountain Lakes, N.J.: “The challenge will be to stay and grow once Y2K is fixed.”

Gartner Group in Stamford, Conn., estimates corporations and governments will spend \$600 billion to fix the Y2K mess worldwide. Much of the job involves searching through thousands of lines of code to fix two-digit dates affecting critical business functions—such as interest calcu-

lations or safety inspections. Demand is so hot that Georgia-Pacific and Andersen Consulting each offered up to \$85,000 to a prospective manager. Andersen upped the ante to \$110,000, with a \$40,000 signing bonus. The candidate went with Andersen—but ended up assigned to Georgia-Pacific under a contract. “These jobs are sucking up all the people,” says David Pollard, director of recruitment at Keane Inc. in Boston.

“BOOT CAMPS.” If you’re technically oriented, be sure to grab any opportunity to manage a Y2K project, regardless of scope. But you can also use a Y2K assignment as an entrée into information technology jobs even if you’re a nontechie. Some universities and companies offer 12-week “boot camps” that give liberal arts majors or other career-changers the skills needed to perform entry-level debugging in older computer languages.

Once you get on a project team, Nance says you should negotiate to get training in modern languages, such as Java or C++. Lou Marcocci, research director at Gartner Group, says that because work is such a large undertaking, cutting-edge projects are being put on hold until staff becomes available. Project managers can grow themselves for these plus post-Y2K assignments staying current in Internet and electronic communications developments.

Even lawyers and insurance agents may grab opportunities from the millennium bug. Gary Crum, an analyst with BancAmerica Robertson Stephens in San Francisco, thinks the litigation of lawsuits stemming from Y2K foul-ups will cost “two to three times” the price tag of fixing computer code worldwide. Technology-savvy attorneys will be needed to sue and defend companies. Specialty insurance concentrating in risk and liability, also will need to create policies protecting corporate America from expected Y2K litigation. “All the bugs won’t be fixed,” says Craft. The Y2K risk is “expected to drive environmental suits the 1980s.” Even Y2K doesn’t beat that enormous windfall for lawyers and insurers, it’s a chance to create a new era of career breaks that will last well as the millennium celebrations fade.

Mary Beth R.

CAREERS

The Year 2000 Job Market

Here are average annual salaries and bonuses for Y2K assignments at the nation’s 10 largest consulting firms:

PROJECT DIRECTOR Salary, \$110,000. Short-term bonuses average 13% of pay. A third receive longer-term incentives.

PROJECT MANAGER Salary, \$87,900. Short-term bonuses average 16% of pay; 28% get long-term incentives.

SENIOR PROGRAMMER Salary, \$70,300. Short-term bonuses hit 10%; 5% get long-term incentives.

QUALITY ASSURANCE ANALYST Salary, \$53,100. Seventeen percent get short-term bonuses.

DATA: WILLIAM M. MERCER INC.

YOU SHOULD KNOW WHAT INVESCO KNOWS.™

In the financial world, knowledge is king. And the trick is knowing where to get it and how to use it. At INVESCO, we've been managing money in every kind of market in every kind of economy for 65 years. Our 38 no-load funds, including 11 sector funds, provide a wide range of international, growth, value, income, total return, tax-free and money market options. You can experience our

wealth of knowledge and global perspective firsthand through your financial advisor, your retirement plan at work, or by contacting us direct at www.invesco.com or 1-800-2-INVESCO. We'll send you a prospectus on any of our funds with information regarding management fees, risks and expenses. Please read it carefully before you invest or send any money. Then you'll know.



INVESCO

CASH? WHO NEEDS CASH THESE DAYS?

Someday, you might be walking around town with a card that lets you board a train, buy a newspaper, and store your emergency health information. When you get home, you'll sit down at your PC, log

TECHNOLOGY

on to the Internet, and review and pay all your bills. These two technologies—smart cards and electronic bill presentment—were hot topics at *American Banker's* recent "Future Money" conference in Philadelphia. Both are being tested in selected markets, but receiving bills over the Net is closer to widespread use.

CheckFree, Intuit, Microsoft, Integriion Financial Network (owned by IBM, Visa International, and others), and smaller outfits such as Princeton TeleCom are pushing bill presentment as a way for companies to reduce costs and better get to know customers. It also has appeal for consumers, and not just because you save on stamps.

CHIP CHANGE. Here's how it will work: When you visit an online bank or broker's Web site, you'll find a summary of major bills all in one place. Say you sign up for E-banking at Wells Fargo. You'll tell the bank which companies send you bills regularly. The bank will then arrange to have the bills presented to you online at no extra cost. You'll be able to pay the bills instantly or schedule payments later and have your account debited. If you want a paper record, you'll print out statements, and if you have a question about a charge, you'll be able to send E-mail or click on a

link that will take you to the company's site.

MSFDC, a joint venture between Microsoft and First Data, is currently running electronic pilot tests with Banc One, KeyBank, Northwest, Wells, and Merrill Lynch. Meanwhile, CheckFree has signed up Chase Manhattan and 22 other companies, including, most recently, AT&T. By fall, AT&T's residential long-distance, wireless, and WorldNet Internet customers will be able to view and pay bills at the Web sites of AT&T or various banks.

Eventually, you'll be able to customize the way a bill appears on the screen, and click on a phone number to bring up a reminder of whom you called.

Smart cards are being pro-

The Latest In E-Money

SMART CARDS...

The cards contain computer chips that store and manipulate data. You can use one as a cash card, to pay for phone calls, or to hold medical records. Multi-application versions are in use on campuses including the University of Michigan. American Express, Hilton Hotels, and IBM are in another pilot.

...AND ELECTRONIC BILLING

Intuit, Microsoft, CheckFree, and others are behind the push to let you view and pay bills at your bank or broker's Web site. AT&T recently signed on, joining Southern California Edison and other utilities.



on the horizon. Although they have caught on in parts of Europe, they've been slow to move into the U.S. In a test on Manhattan's Upper West Side, consumers have been reluctant to embrace the card that Citibank and Chase want them to use at dry cleaners, newsstands, and coffee shops. These Mondex and Visa Cards work at the same point-of-sale terminals and are the equivalent of cash—when you lose one, you're out of luck. There's no standard for smart cards, so while there are hundreds of other tests worldwide, people generally need separate cards for each program.

FREE FOOD.

Nonetheless, you'll continue to see market tests. Burger King and Mondex USA, which is owned by several financial institutions, have begun testing smart cards at Burger King outlets on Long Island. The loaded \$10 or \$20 cards are available at dispensers in stores. Diners can also add value to their cards as they are depleted. To encourage use of the cards, every dollar spent earns points toward free food. In another test, some 200 parking meters near Boston University are being converted to accept smart cards this fall. Meanwhile, New York City officials are talking about placing their magnetically encoded MetroCards as smart cards to pay bus and train fares. Unlike the MetroCard, which commuters swipe through a turnstile, users merely wave the smart card at an electronic reader. They enter, speeding up the public transportation system.

Holding back the spread of smart cards are unanswered questions over liability, loss, theft, or malfunction. Over time, they'll probably be addressed. But you'll likely be handling bills of smart cards your E-money choice. *Edward C.*

moted as an electronic replacement for cash—and more. They look like ordinary credit cards but contain chips that hold large amounts of data and turn them into versatile pieces of plastic. Credit cards usually rely on magnetic strips, which can't store as much information.

Smart cards seem to have the most potential in closed environments such as military bases, corporate offices, and hospitals. Already, University of Michigan students use an "Mcard" to enter buildings, check out library books, or buy pizza. It also lets them make phone calls and get onto the Net. And it can store up to \$50 of cash value.

Broader uses of smart cards are still

Look what happened when Lexmark got a clearer picture of their business.

ntly, Lexmark International, a leading der of printing solutions, made a decision made everyone a lot happier—employees, iers and, most important, customers. They ed to integrate every stage of their supply . The goal? To assure customers consistent, ne product delivery.

he solution? Customer focused processes nterprise software from J.D. Edwards. Says ul J. Curlander, President and Chief Executive

Officer, "Keeping promises and delivering the best solutions is what Lexmark is about. J.D. Edwards is about the same thing. Every contact we had with them—from sales to implementation to software support—was with people who were committed to making the Lexmark story a success."

And that it is. The J.D. Edwards solution is key to helping Lexmark make major improvements in customer responsiveness and paving the way

for long-term customer relationships.

And things keep looking better for Lexmark and its customers. Customer deliveries have improved three fold while cycle times have been reduced by over 70%. As Dr. Curlander says, "Because J.D. Edwards is a company that keeps its promises to customers, we're better able to keep ours."

That's how enterprise software ought to be. It can be for you, too. To find out more, call 1-800-727-5333 or visit www.jdedwards.com/customer.

JDEdwards

Enterprise Software

Maximize the Investment in Your Business

Dr. Paul J. Curlander
President and Chief Executive Officer
Lexmark International



CHRYSLER HEADS BACK UPTOWN

With the introduction this spring of the 1999 Chrysler LHS and 300M, America's No. 3

U.S. auto maker is seeking to reclaim the status it gained from past luxury models such as the Imperial, New Yorker, and Fifth Avenue. This

time, however, Chrysler is aiming for the entry-level, luxury-car buyer who might be tempted by the pricier Audi A6 or Lexus ES300.

The LHS and 300M "are significant to changing the image of Chrysler," says Chairman Robert Eaton, who hopes to sell 60,000 of the cars annually. The proof is in the driving, and the LHS and 300M are more than capable of holding their own. The \$28,995 LHS and the \$28,895 300M are built on the same platform as the mid-

dle-of-the-road Chrysler Concorde and Dodge Intrepid sedans. Like their cousins, the LHS and 300M boast cavernous trunks and loads of space in the front and rear seats. But unlike their relatives, the 300M and LHS are powered by a 3.5-liter V6 engine that kicks out a satisfying 253 horsepower. Fuel economy is 18 miles per gallon in the city and 27 on the highway.

The models' overall impression is comfortable and classy, although less refined than the competition. Both

AUTOS

come with leather upholstery, power seats, white gauges trimmed in chrome, and a small analog clock in the center of the dash. Chrysler's imitation wood trim is an improvement over past models but still is a bit tacky for a luxury car. The exteriors, however, are striking. The LHS's tapered body is accented by sculpted headlamps and a dramatic, oversized grill. It's also about 11

inches longer than the 300M and aims for a clientele interested in elegance. The 300M is sportier. As befitting the successor to the letter-series, muscle-car nameplates of the '50s and '60s, the 300M



CHRYSLER 300M
\$28,895

It's the heir to the muscle-car mode of the '50s and '60s.

also is more brawny, particularly in its chunky, squared-off rear.

NICE TOUCH. The comparison—elegance vs. sportiness—is evident in the way the cars ride. The LHS suspension is tuned for a soft ride, while the 300M's is stiffer. The LHS comes with a four-speed automatic transmission, but the 300M's "autostick" lets you opt for manual, clutchless shifting by flicking the gearshift lever. Both cars steer fairly tightly, and their ride is quieter than any other car or truck that Chrysler makes—and on a par with the Audi and Lexus models. Four-wheel antilock disk brakes are standard, as

are dual front air bags. Also included as standard gear are air-conditioned heated power mirrors, AM stereo with CD and cassette players, and power door locks that engage when you stop.

Options are few. The LHS has a power sunroof for \$1,000, chrome wheels for \$600, an upgraded stereo for \$300. The 300M offers a \$255 "100M" package—technical upgrades that provide tight control—which is well worth the extra cost. Some luxury car aficionados may quibble that the LHS and 300M are short because they are rear-wheel-drive and powered by V8s. They make up for that with stylish looks and fine road manners. Besides, when Chrysler merges with Daimler Benz later this year, the new company will be offering its own line of rear-drive Mercedes-Benz sedans.

Chrysler wants to go after the buyers making the move up to custom vehicles, this is a good start. *Bill V.*

CHRYSLER LHS
\$28,995

Elegant, and its suspension is tuned for a soft ride



FUND WATCH

■ **LONG VIEW.** You don't make money buying hot stocks that are in the news—but by investing long term in sound companies that are out of favor, says value investor David Dreman. "The most exciting stocks are almost always overpriced," he says.

Dreman manages \$6 billion, \$4 billion of which is in the Kemper-Dreman High Return Equity Fund. While the fund has earned 31% annually for the past three years, beating the Standard & Poor's 500-stock index, Morn-

ingstar notes that it takes average risks. The fund is up 5% through June 12. Dreman likes battered tobacco stocks, including Philip Morris, which fell nearly 5% June 10, after a Florida jury ruled against Brown & Williamson Tobacco in a case involving a smoker's death. Philip Morris sells for \$37, but Dreman says its assets, excluding tobacco, are worth \$50 to \$60 a share. While "everybody thinks the outlook

is terrible" for oil, he owns Amoco, Atlantic Richfield, Texaco, and some oil-service companies. Many banks boast rich dividends—a reason some financial stocks are "still pretty cheap." Freddie Mac, Fannie Mae, PNC Bank, and Fleet National Group are a few of his favorites. *Amey S.*

DAVID DREMAN



For an expanded version, go to www.businessweek.com/today.htm or AOL, keyword: BW Daily.

...and The Wall Street Journal team up to make
the best business news on TV even better.



THE WALL STREET JOURNAL.

© 1998 Dow Jones & Company, Inc. All Rights Reserved.

DOWNLOADS

VOL. CCXXI NO. 74 ES/FR ***

Inventory Assets: <http://wsj.com>

75 CENTS

Going to Extremes

Board-Riding Youths
Take Sneaker Maker
On a Fast Ride Uphill

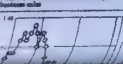
What's News—

Business and Finance

World Wide

Inventory-Sales Ratio

Total Inventory-Sales Ratios divided by total
Revenue for each company



Business Bulletin

A Special Background Report
On Trends in Industry
And Finance

Keeping It Simple

Medicare's Austerity
Eases More Elderly
Into Frugal HMOs

best business decisions demand the best business information.
Watch CNBC weekdays 5:30AM to 7:30 PM/ET.

...ing before the market opens • All day as the market unfolds • After the closing bell to get a jump
...ow. For the latest global business news, watch CNBC, or visit our website at www.cnbc.wsj.com



Real Time. Real Depth.

THE
WALL
STREET
JOURNAL

FOR AD RATES AND INFORMATION
PHONE: (312) 464-0500
FAX: (312) 464-0512 OR WRITE:

BusinessWeek

MARKETPLACE

BUSINESS WEEK MARKETPLACE
500 NORTH MICHIGAN AVENUE, SUITE 2010
CHICAGO, IL 60611

Corporate Gifts/Premiums

THIS IS
AMERICA

YOU'RE ALLOWED TO
SHOP FOR 200 PEN SETS
AT 1 A.M. IF YOU WANT TO.

PROMOMART

<http://www.promomart.com/bw>

Your imprinted business gift cyberstore

Enter the monthly drawing
for \$1,000 in free stuff!

Visit www.promomart.com/bw

Home Furnishings

BUY DIRECT!

from North Carolina, furniture
capital of the world. Shop and
save. In home delivery. Over 400
manufacturers to choose from.

HOMEWAY FURNITURE COMPANY
P.O. Box 1548, Mt. Airy, NC 27030
(800) 334-9094 (336) 786-6151

Stress Relief Products

PANASONIC - THE FINEST IN SHIATSU MASSAGE CHAIRS

*Have Your Own Personal
Massage
Therapist; Day-
Night/Office-Home



*Get Full Details Today!
Panasonic Massage Chairs Direct
Traditional or Contemporary Styles
Nationwide 800-353-9917

Corporate Gifts

Logo Tattoos!



1000 Temporary Tattoos with your Logo.
Just \$189.00!!

plus \$10.00 S&H (CA add 7.25% sales tax)
Customized! Full Color! 2" x 2"

Calico

3000 Alamo Drive, Ste 201 • Vacaville, CA 95687
Tel: 707/448-7072 • Fax: 707/448-8273

Corporate Promotions

**Inexpensive Corporate Giveaways
that REALLY work - don't get
thrown away!**

Custom Designed Leather Bookmarks

Clients love them and are constantly
reminded of YOU. Visit our Web Site
www.leatherbookmarks.com

OR
Send us your logo. We will suggest a layout
and send you a typical sample free of charge

AMEROPEAN CORPORATION

7 Corporate Dr., 109C, North Haven, CT 06473
Tel: 203 239-0448 Fax: 203 234-8820

Computer Equipment

HEWLETT-PACKARD

Buy-Sell-Trade

LaserJet ColorPro Draft Master
DeskJet PlotPro DesignJet
Electrostatic Plotters RuggedWriter
HP 9000 Workstations & Vectras
Demo & Refurbished Equipment
Ted Dasher & Associates
PO Box 131269 Birmingham, AL 35213-6269
Phone 205/263-4747 Fax 205/263-1108
800/638-4833 • E-mail sales@dasher.com

Corporations

We BUY Your PC's

Any Brand, Any Quantity
Will TRADE for New Equipment
1739 28th St SW • Wyoming, MI 49509
616-249-3512 / EMAIL: j.bryant@qundcom.com

Business Financing

GET CASH FOR INVOICES Finance Your Accounts Receivable

Low Rates • No Hassles • No Financials
We can customize financing
to suit your company

AeroFund Financial, Inc.
(800) 747-4234

Funding Sources!

V. Capital Inv Banks Insurance
Pensions SBIC's R/P/Shell's
Pri investors Reits SBA Micro's
Search 10,000 custom profiles by
project/finance type on CD Rom
Contact details, dollar amounts
avail. Guaranteed. Free Info.
www.bizwarehouse.com/bw
1-914-628-2618

Travel

Carlson Wagonlit

Atlantic & Pacific Travel
LOW FARES AND PACKAGES
HAWAII, ASIA & PACIFIC
1-888-537-9966 • Toll Free
(808) 531-4825 • Fax

e-mail: atlpcatl@worldnet.att.net
www.carlsonhawaiitravel.com

Education/Instruction

AWARD WINNING DISTANCE EDUCATION

MBA & MS Degrees

Executive Education



800.441.4746

www.isimu.edu

Accredited by the
Distance Education Training Council

EARN YOUR COLLEGE DEGREE AT HOME

- Accounting • Business Administration
- Business Administration • Criminal Justice • Health
Care Admin • Environmental Science Studies Mgmt
Finance • Human Resources Management
- Information Systems Management

FREE CATALOG
1-800-767-CHAD
www.chadwick.edu

CHADWICK
UNIVERSITY

MBA BY DISTANCE LEARNING

Major British university offers accredited MBA in
Bachelor's or GMAT needed. Chosen by Economist
Intelligence Unit as one of world's best MBA programs

HERIOT-WATT UNIVERSITY | (800) MBA-0707
North American Distributor • Ask for ext. 20
6921 Stockton St, Suite 2, El Cerrito, CA 94530
For immediate FaxBack literature: from your
fax machine's phone, call (510) 486-8900.

The Leader In Distance Learning for 20 Years

•Associate•Bachelor•Master•Doctor
Business (Mgmt, HRM, Health Care)
Psychology • Law • Mgmt of Technology
Southern California University
for Professional Studies
1840 E 17th St BW,
Santa Ana, CA 92705
800/477-2254 www@scups.edu

Residential Roofing

A
LIFETIME
OF
beauty

Country Manor Shake Aluminum Roofing

Wood Shake Look • Five Natural Colors
Fire Safe • Energy-Efficient • Lifetime Warranty
A Permanent Improvement to Your Home!

For more information, call Perfection

1-888-788-2427

Business Services

OFFSHORE CORPORATIONS

- ◆ Protection, Privacy, Tax-Free
- ◆ Nominees, Bank Accts, Credit Card
- ◆ Lic. Offices: Las Vegas - Nassau
- ◆ Flat Rate Fees, Nevada Corps. \$9

ORDER BY PHONE FREE INFO
1-800-997-2555

SAVE 30% to 50%

3-TO-A-PAGE BUSINESS CHECKS & LASER/INKJET COMPUTER CHECKS

Call for a FREE brochure
1-800-239-4087

DESIGNER CHECKS
www.designerchecks.com

100% SATISFACTION GUARANTEE

INCORPORATE

- FREE Information
 - All U.S. States and Offshore
 - Attorney owned and operated
- 1-800-672-9110

www.corpcreations.com

TRADEMARK

Business Services

INCORPORATE BY PHONE!

For as little as \$39 plus state fees,
we will form your Corporation or LLC
in **any state**. Last year our company
nies incorporated over 100
businesses. We specialize in
assisting first-time incorporators.

In as little as 5 minutes
over the phone we'll take your order
in most states you will be incor-
porated in just 24-48 hours. No need
to fill out, we do all the work!
Call now to set up your corporation
or get our **free** guide to incorporating
today!

800-877-4222

302-998-0598 • FAX 302-998-0598
www.corporate.com • CompuServe:
Email: info@corporate.com

CORPORATE AGENTS
Since 1899

We incorporate everything

FOR AD RATES AND INFORMATION
PHONE: (312) 464-0500
FAX: (312) 464-0512 OR WRITE:

BusinessWeek

MARKETPLACE

BUSINESS WEEK MARKETPLACE
500 NORTH MICHIGAN AVENUE, SUITE 2010
CHICAGO, IL 60611

Business Opportunities

**OK Potential Annually
OME-BASED BUSINESS**
4 Pre-Qualified Leads Per Day
time start-up less than \$10K
ROI - \$75K possible first few
ths. Break-through product
Work from phone, fax,
mplete training. Not MLM
EDOM ASSOCIATES
800-432-0018 X5257

MAKE MONEY AS A BUSINESS FINANCE CONSULTANT

Arrange *Business Loans* and
Equipment Leases from \$1,000 to
\$10 million. No co-brokering. Work
directly w/National Lenders.
Unlimited earnings potential and
residual income.
COLOR brochure and FREE
computer disk
CALL 1-800-336-9393
The Loan Consultants, Inc.

ivate Bank

Sale / Free Report
800-733-2191 (USA)
310-798-3842 (USA)
mail: wbc@ibm.net
wide Business Consultants

**n How This Low-profile,
based Business Can Earn
Lucrative Lifetime Income**
story, no overhead, minimal seed
Accelerate your return at your
e. For complete 42-pg discovery
please send \$3 (S&H) to
Mr. S. Santos
222 Idaho Street
redondo, TX 78041-3213

I MADE OVER \$1,000,000 LAST YEAR...

...in a zero stress, relaxed, ideal
lifestyle, simple, home-based business!
Now I want to teach 2 highly
motivated persons in your area my
turn-key system. Call my

24 Hr. Hotline 800-331-0312

Franchise your business!

Call for information on franchising and
"Franchise Your Business!" seminars
scheduled throughout the country.

francorp

Specialists in Franchise Development BW
1-800-FRANCHISE (1-800-372-6244)

**DON'T MISS THE OPPORTUNITY
TO ADVERTISE IN THE
BUSINESS WEEK MARKETPLACE AND
REACH OVER 6 MILLION RESPONSIVE
READERS WITH THE EDUCATION,
FINANCIAL ABILITY AND INTEREST
TO RESPOND TO YOUR OFFER.**

The next MarketPlace section
closes on June 25th for
the August 10th issue.
For rates and information contact:

Business Week MarketPlace
500 North Michigan Avenue
Suite 2010
Chicago, IL 60611
Phone 312-464-0500
Fax 312/464-0512

Menswear/Fashion

MEN'S WIDE SHOES

EEE-EEEEEE, SIZES 5-13
FREE catalog • High quality • 160 styles



HITCHCOCK SHOES, INC.
Dept. 55F Hingham, MA 02043
1-800-992-WIDE www.wideshoes.com

Sports Equipment

BATTING TUTOR



- Fastballs, curves, sliders
- Safe for backyard use

800-448-8867
www.sportstutor.com

Investment Services

POWER INVESTING

Our DRIP 50 index has beaten the S&P for
3 yr and 5 yr returns. Not just for small
investors, anymore. We recommend only
top quality, "investor friendly" companies
currently in favor on Wall St and selling at
no, or little, premium to their growth rates

North Shore Associates
Box 97, Winnetka, IL 60093
847-446-4406
http://powerinvestdrips.com



Your Legal Fortress

- Alternative Estate Planning
- Unique Cost-Effective
- Tax-Income Optimization

Rock-solid, Specialty Legal/Financial Techniques
designed to protect anyone's Income, Assets,
& Privacy from Public or Private Challenge

(800) 935-5171 x3863 (xFUND)

Cigars

CUBAN CIGARS

DELIVERY ANYWHERE
Canada 416-966-0040

Books / Videos

**WHAT'S THE
SMARTEST \$19.95
INVESTMENT
YOU'LL
EVER MAKE?**



It just may
be this
fascinating
book,
written
by one of

the country's top money
managers. You'll find useful
information on inflation,
insurance, budgeting, invest-
ing and debt reduction —
and the steps you can take to
reach your financial dreams.
Just \$19.95, including ship-
ping and handling.

To place your order, or
for a free brochure, call:
1-800-234-3445, ext. 154

DEER PUBLISHING, INC.

"Superb advice from the ultimate pro"

Malcolm S. Forbes, Jr.

Publishing

Have you written a BOOK?

Being a published author can be a huge
boost to your career. We are the subsidy
publisher with a big difference.
Call for our brochure (800) 648-5646,
or check our web site listed below

www.LondonBooks.com

Boarding/Prep Schools

**RIVERSIDE
MILITARY ACADEMY**
EXCELLENCE IN COLLEGE PREP
SINCE 1907

- Honor JROTC school with distinction
- Safe, structured, all boys boarding
Environment
- Grades 7/12, full accredited, small classes,
Weekly report cards.
- Promotes leadership, self-confidence, and
Manners



- Computer in every dorm room
- Full athletic program
- Band, Fine Arts, and Aviation
- Affordable Tuition
- Located on Lake Lanier in North GA
- www.cadet.com

FOR MORE INFORMATION CALL **1-800-GO-CADET**



BizLink

Unless, of course, you actually enjoy filling out forms.

Want advertiser information now, without having to fill out one of those pesky reader service cards? Connect with BizLink, Business Week's new electronic reader service fulfillment system. You'll get the information you need the way you want it—by fax, phone, mail, or e-mail. It's free, it's fast and nothing could be simpler. **Why wait?**

Access BizLink now:

www.businessweek.com/BizLink/

BusinessWeek

Most Read. Best Read. Worldwide.

And if you don't have an Internet connection, just call 1-800-848-6708.

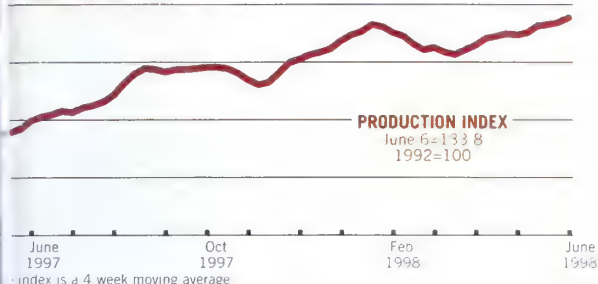
June 29, 1998

- | | | | |
|----------------------------|-------------------------------|------------------------------|-------------------------------|
| 1 Alitalia Airlines | 16 USWEB | 102 Boston College | School of Management |
| 2 Charles Schwab | Egypt | 103 Claremont Graduate | 114 University of Michigan |
| 3 Cadence Design Systems | Special Advertising Section | University-Drucker | Business School |
| 4 GTE Internetworking | 17 AIC CONSTRUCTION | Graduate School of | 115 University of Pittsburgh- |
| 5 Inter-Continental Hotels | 18 COMMERCIAL | Management | Katz Graduate School of |
| 6 International Paper | INTERNATIONAL BANK | 104 Colorado State | Business |
| 7 Lexus CPO | (EGYPT) S.A.E. | University | 116 University of South |
| 8 NIPPON TELEGRAPH AND | 19 Commercial International | 105 Emory University- | Carolina-The Darla Moore |
| TELEPHONE | Investment Company | Goizueta Business | School of Business |
| CORPORATION | 20 Government of Egypt | School | 117 University of Southern |
| 9 Partner fuer Berlin | (Ministry of Foreign | 106 Georgia State University | California-Marshall |
| 10 Praxair | Affairs) | 107 ISIM University | School of Business |
| 11 QAD Inc. | 21 ORASCOM Onsi Sawiris & | 108 Loyola University | 118 Wake Forest University |
| 12 SAS Institute, Inc. | Co. | Chicago | 119 Washington University- |
| 13 SRDC | 22 SALEM GROUP | 109 Ohio University | Olin School of Business |
| 14 Sprint | Executive Education & MBA | Executive Education | 120 Worcester Polytechnic |
| 15 TIBCO | Special Advertising Directory | 110 Penn State University | Institute Graduate |
| | 101 Audrey Cohen College | 111 Tulane University | Management Programs |
| | | 112 University of Florida | |
| | | 113 University of Iowa- | |

Business Week Index

PRODUCTION INDEX

Change from last week 0.2%
Change from last year 7.0%



Production index rose in the week ended June 6. The unaveraged index rose up, to 134.9, from 133.6. After seasonal adjustment, rail freight rose by 1.9%, with strong increases in grain traffic, which had been weak earlier. Electric power was up 1.8%, with large increases in the South and Southeast regions. Auto and truck production also rose, prior to the GM and Ford's being hit by a strike at its Flint, MI, plant. Lumber rose, as did steel and coal production.

Production index copyright 1998 by The McGraw-Hill Companies.

PRICING INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STOCK PRICES (6/12) S&P 500	1098.84	1113.86	23.0
GOVERNMENT BOND YIELD, Aaa (6/12)	6.52%	6.59%	-12.4
CRUDE OIL SUPPLY, M2 (6/1) billions	\$4,188.4	\$4,169.1r	7.2
UNEMPLOYMENT CLAIMS (6/6) thous.	315	338r	-6.5
MORTGAGE APPLICATIONS, PURCHASE (6/12)	262.1	272.1	24.8
MORTGAGE APPLICATIONS, REFINANCE (6/12)	1,209.6	1,120.7	222.0

Sources: Standard & Poor's, Moody's, Federal Reserve, Labor Dept., Mortgage Ind. Assn. (Index: March 16, 1990=100)

INTEREST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
MUTUAL FUNDS (6/16)	5.55%	5.38%	5.46%
COMMERCIAL PAPER (6/16) 3-month	5.50	5.50	5.64
SAVINGS DEPOSITS (6/17) 3-month	5.60	5.58	5.65
MORTGAGE (6/12) 30-year	7.11	7.10	7.90
TABLE MORTGAGE (6/12) one-year	5.79	5.80	5.98
(6/12)	8.50	8.50	8.50

Sources: Federal Reserve, HSH Associates, Bloomberg Financial Markets

Data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=Revised NM=Not meaningful

THE WEEK AHEAD

NEW LEADS ORDERS

Monday, June 24, 8:30 a.m. EDT ▶ New orders for durable goods manufacturing fell by 0.5% in May, says the forecast of economists surveyed by Standard & Poor's MMS, a division of The McGraw-Hill Companies. The decline is as expected after new orders jumped in April, led by the volatile aircraft industry. In addition, the continued fallout from the Asian financial crisis is hitting demand for capital goods.

UNEMPLOYMENT CLAIMS

Monday, June 25, 8:30 a.m. EDT ▶ New claims for state unemployment benefits stood at about 320,000 for the week

ended June 20. That's on a par with the four-week moving average in claims posted in early June. Filings have been edging up since April but remain quite low by historical standards. That suggests June has seen little if any easing in the extremely tight U.S. labor markets.

EXISTING HOME SALES

Thursday, June 25, 10 a.m. EDT ▶ Existing homes probably sold at an annual rate of 4.75 million in May, says the median S&P MMS forecast. That's down only a bit from the 4.77 million pace of April. In March, resales hit a record of 4.89 million. With mortgage rates still hovering around 7%, housing remains one of the

most vibrant sectors of the economy.

PERSONAL INCOME

Friday, June 26, 8:30 a.m. EDT ▶ The S&P MMS survey expects that personal income rose by a solid 0.5% in May, the same gain posted in April. The May advance is suggested by the strong gains in jobs and weekly pay for the month. Consumer spending was likely up by 0.6%, on top of the 0.5% increase in April. The buying gain is indicated by the surge in vehicle sales and increased sales at other retailers. Real consumer spending is on track to grow at an annual rate of about 4.5% in the second quarter, following a hefty 6.1% gain in the first.

PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (6/13) thous. of net tons	2,190	2,174#	4.8
AUTOS (6/13) units	112,852	112,774r#	-7.3
TRUCKS (6/13) units	124,136	144,285r#	-4.3
ELECTRIC POWER (6/13) millions of kilowatt-hrs	64,274	66,333#	3.8
CRUDE-OIL REFINING (6/13) thous. of bbl./day	15,507	15,245#	2.8
COAL (6/6) thous. of net tons	21,581#	20,984	2.5
LUMBER (6/6) millions of ft.	494.9#	374.3	-0.4
RAIL FREIGHT (6/6) billions of ton-miles	27.8#	26.2	5.3

Sources: American Iron & Steel Institute, Ward's Automotive Reports, Edison Electric Institute, American Petroleum Institute, Energy Dept., WWPAl, SFPAl, Association of American Railroads

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (6/17) \$/troy oz.	290.000	293.000	-15.1
STEEL SCRAP (6/16) #1 heavy, \$/ton	134.50	134.50	-2.9
COPPER (6/12) ¢/lb.	80.0	79.0	-34.3
ALUMINUM (6/12) ¢/lb.	64.0	64.5	-16.9
COTTON (6/13) strict low middling 1-1/16 in., ¢/lb.	72.11	71.94	1.8
OIL (6/16) \$/bbl.	11.94	13.56	-36.7
CRB FOODSTUFFS (6/16) 1967=100	240.14	238.13	-1.1
CRB RAW INDUSTRIALS (6/16) 1967=100	297.83	302.29	-12.0

Sources: London Wednesday final setting, Chicago market, Metals Week, Memphis market, NYMEX, Commodity Research Bureau

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (6/17)	137.55	141.63	113.43
GERMAN MARK (6/17)	1.79	1.80	1.73
BRITISH POUND (6/17)	1.67	1.63	1.64
FRENCH FRANC (6/17)	5.99	6.03	5.85
ITALIAN LIRA (6/17)	1759.0	1770.5	1697.5
CANADIAN DOLLAR (6/17)	1.46	1.47	1.39
MEXICAN PESO (6/17)	8.875	8.881	7.909
TRADE-WEIGHTED DOLLAR INDEX (6/17)	112.9	113.8	103.4

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars. Trade-weighted dollar via J.P. Morgan

This Week, Online

Business Week presents frequent live conferences and chats on America Online—your opportunity to ask questions about timely topics.

Sunday

Need family financing for your new business? Paul I. Karofsky of Northeastern University's Center for Family Business tells what to do—and not to do—to avoid family problems. It's another BW Enterprise chat. **June 21 9 p.m. EDT**

Thursday

Megan Graham-Hackett, Standard & Poor's co-director of equity research, will be on the virtual stage to discuss the ins and outs—and ups and downs—of investing in technology stocks. What's hottest now? **June 25 9 p.m. EDT**

AOL keyword: BW Talk

Transcripts of all conferences are available for downloading from the BW Online area on AOL soon after each event.

Index to Companies

This index gives the starting page for a story or feature with a significant reference to a company. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

A

Acet 48
Acorn International Fund (ACINX) 132
Adobe Systems (ADBE) 20
Aerospatiale 146
Air France 46
Aldi Food 48
AlliedSignal (ALD) 43
American Express (AXP) 120
American Science & Engineering 10
America Online (AOL) 43, 100, 106
Amoco (AM) 138
Amway 43
Anderson (Arthur) 40, 134
Apple Computer (AAPL) 20
Applied Sciences 89
Artisan International (ARTIX) 132
Aurora 121
AT&T (T) 6, 43, 100, 136
Atlantic Richfield (ARC) 138
Audi 85
Avid Technology (AVID) 43

B

Baird (Robert W.) 43
BancAmerica Robertson Stephens (BAC) 134
Banc One (ONE) 136
Bankers Trust (BT) 106
Barnes & Noble (BKS) 108
Bay Networks (BAY) 43
Bear Stearns (BSC) 126
Birla Capital 54
Boeing (BA) 6, 99
Boise Cascade (BCC) 106
Borders Group (BGP) 108
Bosch (Robert) 85
British Telecom (BTY) 6
Broadway Video 8
Brown & Williamson 138
Brown Brothers Harriman 108
BT Investment International Equity (BTEQX) 132
Burger King 136
Burson Marsteller 43

C

Cahners Publishing 10
CAIS Internet 20
Carrefour 48
Caterpillar (CAT) 30
Cendant (CD) 40, 100
Charles Machine Works 32
Charlotte Hornets 131
Chase Manhattan (CMB) 136
Chick-fil-A 116
Chrysler 132
Chrysler Financial Services (CCSI) 121
Chrysler (C) 32, 36, 85, 138
Circuit City (KMX) 108
Circus Circus (CIR) 126
Citibank (CCI) 58, 106, 136
Cliffs Notes 8
Calt Telecom 118
Compaq Computer (CPQ) 48, 100
Computer Horizons (CHRX) 134
Covalent Technologies 42
Cray Research 126
Crescent Real Estate Equities 124

D

Daimler Benz (DAI) 85, 138
Dalton (B) (DH) 108
Dataquest 48
Dayton Hudson (DH) 108
Deutsche Telekom 118
Dialog Bank 50
Digital Equipment (DEC) 42
Donaldson Lufkin Jenrette 10
Dreamworks SKG 100
Dreyfus (MEL) 121
Dreyfus Aggressive Growth Fund 121
Drillich 118

E

Eastman Kodak (EK) 35
Eddie Bauer (SPGLA) 106
Equifax (EFX) 134
Esprit Telecom 118
Excel Communications (ECI) 43
Excell Data 93

F

Fannie Mae 138
Farrar Straus & Groux 108
FDX (FDX) 106
Fidelity Investments 121
First Call 32, 34
First Data (FDC) 136
First Telecom 118
First Union National Bank of Florida 40
Fleet Financial (FLT) 138
Flemings UCB 50
Ford (F) 32, 36, 43, 85
Forrester Research (FORR) 100, 106
Franklin Mutual Advisers 40
Freddie Mac (FWG) 138
FreeCaller Communications 8
Fuji Photo Film (FUJII) 35
Fujitsu 48

G

Gartner Group 8, 134
GB 48
General Electric (GE) 10, 38
General Mills (GIS) 10
General Motors (GM) 36, 85
Georgia Pacific 134
G Link Technology 85
Goldman Sachs 30, 32
Greater China Fund 132
Grove/Atlantic 108
Gruntal 34
Guidant 62
Guinness Flight China (GFCHX) 132

H

Hambrecht & Quist 106
Hilton Hotels (HLT) 126
Hitachi (HIT) 20
Home Depot (HD) 108
Honda (HMC) 43, 85
HSBC Washington Analysis 26

I

IBM 42, 106, 136
IBM (IBM) 42, 106, 136
Idealab 100

Integron Financial Network 136

Intel (INTC) 8, 48, 93
Inteleis Group 8
Intuit (INTU) 136
Iomega 20

J

Jupiter Communications 100

K

Keane 134
Kemper-Dreman High Return Equity Fund 138
KeyBank 136
Knowledge Adventure 100

L

Lazard Freres 46
Lehman Brothers (LEH) 6
Lidl 48
Lipper Analytical Services 132
Loewenbaum 126
Lotus Development (IBM) 42, 100
Lucent Technologies (LU) 43

M

Mack Trucks 43
Manpower (MAN) 43
Markman Capital 132
Maxell 8
Maxima 48
McGraw-Hill (MHP) 143
MCI Communications (MCIC) 6
Medtronic 62
Merck (MRK) 8
Merrill Lynch (MER) 120, 136
Metro 48
Microsoft (MSFT) 8, 20, 42, 43, 46, 85, 93, 100, 104, 106, 136
Microtech International 20
Miller Anderson 120
Minnesota Twins 131
Mitsubishi 30, 85
Mondex 136
Montag & Caldwell 62
Montgomery Emerging Markets R 132
Moody's 32, 120
Morgan Stanley Asia Pacific Fund 132
Morgan Stanley Dean Witter (MWD) 6, 34, 120, 132
Morningstar (MSTR) 132, 138
Motorola (MOT) 32

N

National Semiconductor (NSM) 34
Netscape Communications (NSCP) 42, 104, 106
New York Yankees 16
Nicholas-Applegate Emerging Country a (NECAX) 132
Nielsen (AC) 8
Nike (NKE) 8
Northern Telecom (NT) 43
Norwest (NOB) 136

O

Oakland A's 131
Onexbank 50
Oracle (ORCL) 42

P

PaineWebber (PW) 40
Philip Morris (MO) 138
Pioneer Emerging Markets A 132
Pittsburgh Pirates 131
PNC Bank (PNC) 138
PointCast 6
Power (LD) 36
Princeton Telecom 136

Project Software & Development (PSDI) 126

Prudential Investments 124
Prudential Securities 34
Putnam Mutual Fund 121

R

Random House 108
Raytheon (RTN) 43
Red Hat Software 42
R.J. Julia Booksellers 108

S

Saatchi & Saatchi 16
Saint-Gobain 46
Salomon Smith Barney (TBY) 126
San Diego Padres 131
Schadt Computertechnik 48
Schroder 36
Scott Paper 40
Scudder Latin America (SLAFX) 132
Siemens-Nixdorf 48
Silicon Graphics (SGI) 126
Simon & Schuster 108
Sony Pictures (SNE) 8
SoundView Financial 106
Southwest Securities 124
Sprint (FON) 43
Standard & Poor's (MHP) 34
Station Casinos 124
Stein Roe & Farnham 40
Sunbeam (SOC) 16, 40, 120
Sun Microsystems (SUNW) 42

T

Teleglobe 43
Telmex 43
Templeton Developing Markets I 132
Templeton Emerging Markets Appreciation Fund 132
Tera Computer (TERA) 126
Texaco (TX) 138
Tidel Technologies (HTMS) 3M (MMM) 32, 34
Tokobank 50
Toll Brothers (TOL) 34
Toys 'R' Us (TOY) 108
Troika Dialog 43
Tulip 48

U

United Airlines (UAL) 6
University of Michigan Press
UUNET 42

V

Van Kampen 120
Vanguard International Emerging Market (VEIEX)
Vendex International 108
Veronis Suhler 108
Viatel (VYTL) 118
Visa International 136
Visible Genetics 89

W

Vobis 48
Volkswagen 85
Volvo 8
Wal-Mart Stores (WMT) 32
Wells Fargo (WFC) 136
Western Digital (WDC) 32
Wind 118
WorldCom (WCOM) 6, 11
Wrightson (R.H.) 32

Y

Yahoo! (YHOO) 42, 106

For a free trial diskette including 50 free hours on AOL, call 1-800-641-4848 and mention Business Week



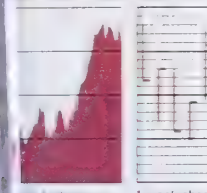
\$50/Year. Periodicals postage paid at New York, N.Y., and at additional mailing offices. Postage paid at Montreal, P.Q. Canada Post International Publications Mail Product Sales Agreement No. 246484. Postmaster: Send address changes to BUSINESS WEEK, P.O. Box 430, Hightstown, NJ 08520.

Investment Figures of the Week

STOCKS

S&P 500

Dec. June June 11-17



1-week change: 4.5% 1-week change: -0.5%

COMMENTARY

as a head-spinning week for the markets. First, Asia's emerging crisis sent the Dow's industrial average down 64.2 points, to hit 8829.5. Next day, the Dow roared back up, helped by a catalyst: The U.S. government's attempt to shore up the economy—by helping to stop that crisis from spreading over into the earnings of U.S. companies—by selling dollars for yen. That led the dollar to retreat from an all-year high against Japan's yen.

U.S. MARKETS

	Latest	% change Week	% change Year
Dow Jones Industrials	8829.5	-1.6	14.4
NASDAQ Combined Composite	1776.4	0.2	24.0
S&P MidCap 400	352.9	-1.4	22.0
S&P SmallCap 600	185.6	-1.2	16.5
S&P SuperComposite 1500	235.5	-0.6	24.0

SECTORS

	Latest	% change Week	% change Year
Bloomberg Information Age	334.9	0.0	24.5
S&P Financials	133.1	-1.7	29.0
S&P Utilities	244.9	-0.5	24.3
PSE Technology	327.3	-1.3	15.1

FOREIGN MARKETS

	Latest	% change Week	% change Year
London (FT-SE 100)	5832.7	-2.6	25.2
Frankfurt (DAX)	5709.4	-0.8	53.1
Tokyo (NIKKEI 225)	14,715.4	-4.1	-28.2
Hong Kong (Hang Seng)	8004.4	0.3	-43.6
Toronto (TSE 300)	7195.1	-3.2	10.7
Mexico City (IPC)	4341.0	-1.3	1.4

FUNDAMENTALS

	Latest	Week ago	Year ago
S&P 500 Dividend Yield	1.43%	1.40%	1.66%
S&P 500 P/E Ratio (Last 12 mos.)	25.7	26.6	22.6
S&P 500 P/E Ratio (Next 12 mos.)*	21.1	21.6	18.4
First Call Earnings Revision*	-1.13%	-0.92%	-1.25%

TECHNICAL INDICATORS

	Latest	Week ago	Reading
S&P 500 200-day average	1012.9	1008.4	Positive
Stocks above 200-day average	44.0%	51.0%	Neutral
Options: Put/call ratio	0.73	0.54	Positive
Insiders: Vickers Sell/buy ratio	2.35	2.52	Neutral

Data: Bloomberg Financial Markets; *First Call Corp.

BEST-PERFORMING GROUPS

	Last month%	Last 12 months%
Drug Chains	11.6	Specialty Appr. Retailers 104.5
Personal Loans	10.4	Automobiles 72.8
Food Chains	9.8	Airlines 65.8
Airlines	9.5	Genl. Merchandise Chains 63.5
Tobacco	8.5	Homebuilding 63.2

WORST-PERFORMING GROUPS

	Last month%	Last 12 months%
Oil & Gas Drilling	-23.0	Metals -43.5
Gold Mining	-18.7	Gold Mining -32.0
Forest Products	-16.2	Shoes -26.4
Steel	-14.5	Engineering & Constr. -20.1
Instrumentation	-14.1	Aluminum -19.7

BLOOMBERG MONEY FLOW ANALYSIS

Rebound ahead? Stocks with most significant inflows of cash in recent weeks

	Price	1-month change
Citicorp	146 1/4	-7 3/4
Pfizer	109 3/4	-5 1/8
IBM	110	-14 3/8
BellSouth	66 19/16	-7/8
J.P. Morgan	117 7/8	-10 11/16
Chase Manhattan	67 3/4	-3 3/8

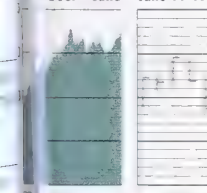
Decline ahead? Stocks with most significant outflows of cash in recent weeks

	Price	1-month change
Cisco Systems	79 15/16	2 3/16
L.M. Ericsson-ADR	26 3/8	3/16
Microsoft	89 7/8	3 13/16
HBO	31 9/16	1 7/32
Philip Morris	36 11/16	1 1/2
Abbott Laboratories	39	1 11/32

INTEREST RATES

90-DAY TREASURY INDEX

Dec. June June 11-17



1-week change: -0.4%

Data: Bloomberg Financial Markets

KEY RATES

	Latest week	Week ago	Year ago
MONEY MARKET FUNDS	5.10	5.10	5.16
90-DAY TREASURY BILLS	5.20	5.14	5.03
6-MONTH BANK CDS	5.07	5.08	5.21
1-YEAR TREASURY BILLS	5.41	5.44	5.66
10-YEAR TREASURY NOTES	5.54	5.51	6.40
30-YEAR TREASURY BONDS	5.75	5.70	6.69
LONG-TERM AA INDUSTRIALS	6.32	6.27	7.18
LONG-TERM BBB INDUSTRIALS	6.79	6.71	7.61
LONG-TERM AA TELEPHONES	6.65	6.58	7.42

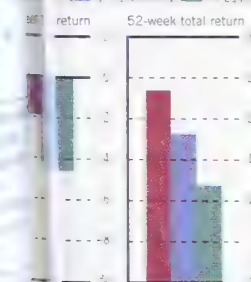
BLOOMBERG MUNI YIELD EQUIVALENTS

Taxable equivalent yields on AAA-rated, tax-exempt municipal bonds, assuming a 31% federal tax rate.

	10-yr. bond Latest week	10-yr. bond Last week	30-yr. bond Latest week	30-yr. bond Last week
GENERAL OBLIGATIONS	4.45%	4.40%	4.98%	4.93%
PERCENT OF TREASURIES	80.54	79.93	86.83	86.53
TAXABLE EQUIVALENT	6.45	6.38	7.22	7.14
INSURED REVENUE BONDS	4.58	4.54	5.17	5.13
PERCENT OF TREASURIES	82.90	82.48	90.14	90.04
TAXABLE EQUIVALENT	6.64	6.58	7.49	7.43

MUTUAL FUNDS

52-week total return



Data: Morningstar, Inc.

EQUITY FUNDS

Leaders	4-week total return	%	Laggards	4-week total return	%
Franklin Utilities II	5.1		Lexington Troika Russia	-28.8	
Prudent Bear	5.0		Newport Greater China A	-27.3	
Galaxy II Util. Idx. Retail	4.9		Guinness Mainland China	-26.9	
Merrill Utility Income A	4.7		Matthews Pacific Tiger I	-26.5	
Wright EquiFd.-Belg./Lux.	4.5		U.S. Global Investors Gold	-26.0	
Leaders	52-week total return	%	Laggards	52-week total return	%
Weitz Hickory	52.5		Matthews Korea I	-73.7	
FMI Focus	50.4		Lex. Crosby Sm. Cap Asia	-66.0	
Fidelity Select Retailing	50.2		U.S. Global Investors Gold	-65.1	
Scudder Greater Europe Gr.	49.9		Montgomery Emerg. Asia R	-64.2	
Texas Capital Val. & Grth.	46.3		Morg. Stan. Inst. Asia Eq. A	-62.9	

EQUITY FUND CATEGORIES

Leaders	4-week total return	%	Laggards	4-week total return	%
Utilities	0.7		Pacific/Asia ex-Japan	-20.5	
Domestic Hybrid	-1.6		Precious Metals	-18.4	
Large-cap Growth	-2.2		Diversified Emerging Mkts.	-15.0	
International Hybrid	-2.2		Diversified Pacific/Asia	-14.0	
Europe	-2.2		Latin America	-13.0	
Leaders	52-week total return	%	Laggards	52-week total return	%
Communications	29.2		Pacific/Asia ex-Japan	-54.0	
Financial	28.8		Diversified Pacific/Asia	-44.3	
Europe	27.5		Precious Metals	-41.5	
Utilities	23.7		Diversified Emerging Mkts.	-32.7	
Large-cap Growth	23.6		Japan	-31.6	

JAPAN MUST TAKE DRASTIC ACTION—NOW

Is this the beginning of Japan's recovery—or just a brief pause on the downward path to a full-fledged depression? After watching the Japanese yen fall as low as 146 to the dollar, its lowest level since 1990, the U.S. and Japan joined forces on June 17 to break the currency's headlong plunge. The joint intervention helped push the yen back up to 137 to the dollar by day's end while punishing currency speculators.

Meanwhile, the show of support for the yen served the additional purpose of lessening the immediate need for China to devalue its currency in order to stay competitive with Japan. Such a move would have started another disastrous round of "beggar-thy-neighbor" devaluations in Asia. That alone made the intervention worthwhile, especially given President Clinton's upcoming trip to China.

But propping up the yen is a stopgap measure that does nothing to solve Japan's deep-seated problems. With the Japanese economy slipping ever deeper into recession, and the banking system weighed down by hundreds of billions of dollars in bad loans, immediate structural reforms are essential. The most pressing need is for Japan to undertake a major bailout of its banks, as the U.S. did to solve the savings and loan crisis of the 1980s. Without such aggressive action to resuscitate the faltering financial system, the Japanese economy cannot escape its current slide.

Unfortunately, a U.S.-style bailout will require painful measures, such as closing insolvent banks and taking bad loans onto the government's books. In the aftermath of the in-

tervention, Prime Minister Ryutaro Hashimoto repeated earlier promises to reform Japan's economy. Yet such promises have been made before, with little effect.

If Japan's government fails to act, there are two big dangers. First, Japan is flirting with real economic disaster. The assumption among policymakers in Japan is that exports alone will pull the country out of recession, as they have in the past. But with the rest of Asia in a deep downturn, well, exports may not be enough. Second, if Japan continues to struggle, its problems could very well spread to the rest of the global economy. The most likely scenario: The yen resumes its fall, forcing matching devaluations all across Asia and a steep drop in stock markets all around the world.

So far, the crisis has been delayed because growth in Japan and the U.S. has been strong enough to withstand the storm from Asia. The U.S. economy, in particular, has demonstrated amazing resiliency in the face of an expanding trade deficit, which has subtracted \$115 billion, in 1992 dollars, from gross domestic product over the past two years. As long as that vitality continues: Business investment in equipment soared to 8% of GDP in the first quarter, nearing its postwar high. Americans are showing their faith in the future with their wallets, as consumer spending in the second quarter is estimated to rise at a 4.5% clip, on top of a 6.1% first quarter.

Yet if Japan collapses, even a vibrant U.S. economy will suffer, along with the rest of the world economy. It's time for Japan's leaders to step forward.

WHO WILL SPEAK FOR FRANCE INC.?

France's companies have made bold strides over the past decade. Once coddled and subsidized by the state, they've gone private, restructured, and become globally competitive. The French government is well on its way to getting out of industrial and financial markets. Even state-owned defense giant Aerospatiale has been told to prepare to float part of its capital.

Prime Minister Lionel Jospin's Socialist government has moved to make the business environment more friendly to entrepreneurs by taking such measures as reducing taxes on stock options, and redirecting a portion of state research and development funding to small companies. And the French economy has responded, with an expected average growth rate of about 2.9% in 1998 and 1999. That would be the biggest two-year growth spurt since the late 1980s.

But there's a long way to go before France shrinks its bloated public sector, eases regulatory burdens, and reverses antibusiness attitudes. Even while some parts of the economy are being liberalized, a new law, which becomes effective in the year 2000, would shorten the workweek to 35 hours, down from 39 today. The state still employs nearly one-quarter

of the workforce, with the Jospin government creating additional make-work public-sector jobs.

Moreover, the government continues to mouth liberal rhetoric even while secretly trying to modernize the French economy. The French press is nearly entirely left-leaning and antimarket, while the right-wing political parties act as statist as those on the left.

What's worse, French execs—unlike their American, German, Dutch, or British counterparts—are loath to utter a critique of government economic policy. Their hesitance to speak out is a throwback to a time when outspoken criticism could have nasty political consequences. Indeed, the taboo is still so strong that French CEOs are mostly unwilling to challenge publicly policies that seriously hamper their competitiveness, such as the 35-hour workweek.

Their conspiratorial silence is hurting their companies. Equally important, it's depriving French society of an open debate at an important turning point, when the moment for change is building. To develop a popular consensus for market reforms, business leaders must find their voices and help coax France into the next century.

THERE'S AN EMERGENCY BOARD MEETING. THE CFO NEEDS NUMBERS BY NOON!

*You Need Them
Fast
You Need Them
Right
You NeedTM
CFO Vision*



When you're under pressure to make critical business decisions, CFO Vision software delivers the timely and accurate information you need.

CFO Vision is the single source for all your key business information, both financial and non-financial—readily accessible for interactive analysis and reporting. It's never been easier to see product and customer profitability, the potential impact of a reorganization, or key performance indicators—in any currency.

You can view your business from all angles because CFO Vision is the first financial consolidation and reporting software that integrates flexible multidimensional analysis (OLAP). All from one vendor...SAS Institute, the leading name in decision support at more than 29,000 companies worldwide including the Fortune 100.

For a closer look, give us a call or visit us at www.sas.com/vision



SAS Institute Inc.

The Business of Better Decision Making

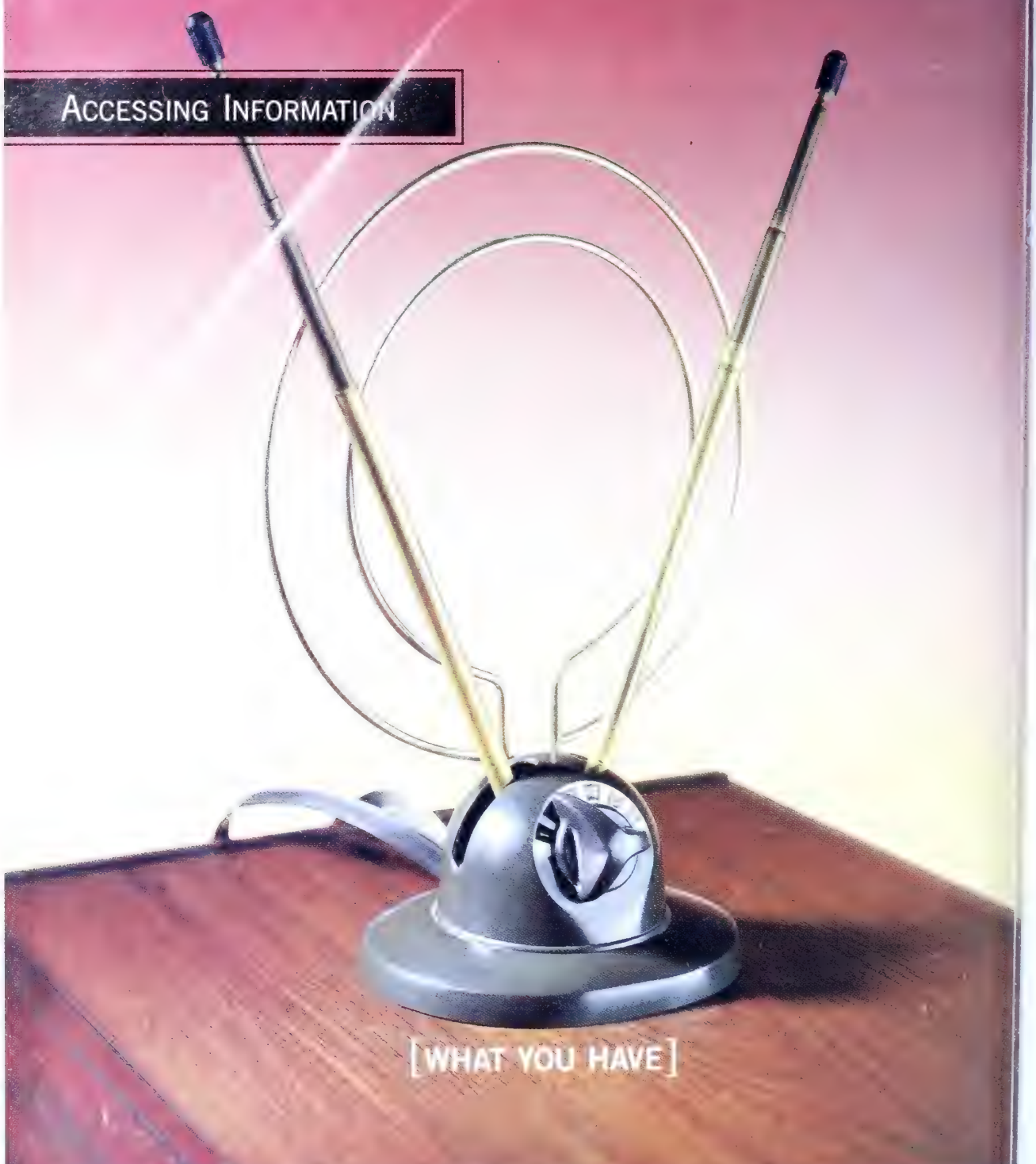
E-mail: bw@sas.com

www.sas.com/vision

919.677.8200

In Canada 1.800.363.8397

ACCESSING INFORMATION



[WHAT YOU HAVE]

By now, everyone knows the modern-day mantra: information is power. The trick is knowing how to make it quickly accessible throughout your company's network. Which is where we come in. Using fibre channel technology, Seagate is developing hardware and software to deliver Storage Networking. A revolutionary concept that'll bring speed, intelligence and a limitless capacity to storage and networks. So that all your information is entirely accessible to everyone who wants it. All the time. It's just one of the ways Seagate is helping to access, process, analyze and protect your information. So you'll have it, the way you want it. To find out more, visit us at www.seagate.com/b

Seagate, the Seagate logo and the tagline are registered trademarks or trademarks of Seagate Technology, Inc.

1488

